TRADE REFORM

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 6767

THE TRADE REFORM ACT OF 1973

MAY 9, 10, 11, 14, 15, 16, 17, 18, 21, 22, 23, 24, 29, 30, 31;
JUNE 1, 6, 7, 8, 11, 12, 13, 14, AND 15, 1973

Part 8 of 15

(May 23, 1973)

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TRADE REFORM

WEDNESDAY, MAY 23, 1973

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Al Ullman presiding.

Mr. ULLMAN. The committee will please be in order.

Our first witness on the subject of aluminum is Irving Lipkowitz, representing the Aluminum Association.

Mr. Lipkowitz, we are glad to have you before this committee. Would you please further identify yourself and proceed as you see fit.

STATEMENT OF IRVING LIPKOWITZ, CHAIRMAN, INTERNATIONAL POLICY COMMITTEE, ALUMINUM ASSOCIATION

Mr. LIPKOWITZ. Thank you, Mr. Chairman.

I am Irving Lipkowitz, chairman of the International Policy Committee of the Aluminum Association.

Mr. Chairman, and members of the committee, the Aluminum Association which represents most U.S. aluminum companies—see appendix A for description and list of members—welcomes this opportunity to present its views on the Trade Reform Act of 1973. See appendix B for the position of the Aluminum Association on foreign trade and investment policy, adopted earlier this year. The Aluminum Association agrees that there is a need for multilateral trade negotiations looking to reform of the international trade system.

As a preamble to our comments on H.R. 6767, certain basic characteristics of the aluminum industry should be noted because they determine the position of the industry on foreign trade and investment:

1. THE UNITED STATES IS HEAVILY AND INCREASINGLY DEPENDENT ON OVERSEAS SUPPLIES OF BAUXITE, THE PRINCIPAL AND MOST ECONOMICAL MINERAL SOURCE FOR ALUMINUM

Bauxite is principally found in the world's equatorial belt, largely in developing nations. The United States has been relying, in great measure, on foreign deposits.

The U.S. Geological Survey reported recently that only 13 percent of U.S. needs comes from domestic sources. As the demand for aluminum in the United States grows, so will the industry's requirement for its raw materials. Continued strong international relationships and mutually beneficial supply agreements with other countries—both developed and developing—are essential for the U.S. aluminum industry to provide adequate raw material supplies in the future.

2. THE INDUSTRY'S CAPITAL REQUIREMENTS ARE VERY LARGE

The facilities of the U.S. industry represent an investment of $12 billion. These expensive and large plants, once in place, are fixed and immobile. They become a resource which cannot be readily reallocated. These facilities, especially at the primary production level, are so costly and technologically so constituted, that there is constant cost pressure in the industry towards full capacity operation. This is as true elsewhere in the world as here.

3. THE INDUSTRY'S TECHNOLOGY IS INTERNATIONALLY DIFFUSED

No one country or region has technological supremacy over the rest of the world. Similarly, cost advantages as to raw materials, power or transportation are scattered among the major producing countries.

4. THE ALUMINUM INDUSTRY IS INTERNATIONAL IN CHARACTER

It is international in structure and in its operations from the mining of its major raw material to the marketing of its products. Over the years, the industry has become increasingly international. This trend reflects evolutionary developments in the long established characteristics of the aluminum industry in terms of patterns of international trade, investment, marketing, transfer of technology, low unit freight costs, proliferation of international production, and sourcing of raw materials—all of which have led to the multinational character of the industry. This is true for both the United States and foreign industry. In fact some of the largest foreign companies have major U.S. affiliates which manufacture aluminum and aluminum products here in the United States. To be competitive worldwide, including the U.S. market, the domestic industry must have the freedom to be as international in its activities as its foreign competitors are.

All four of these characteristics, referred to above, make the domestic industry sensitive and vulnerable to distortions in world market conditions and to the trade and investment policies of governments. For example, relatively small tariff differentials can have an important effect on the pattern of aluminum trade because these markets are intensely competitive.

In light of these considerations we offer the following comments on certain sections of the proposed bill.

TITLE I

Broad negotiating authority, with respect to tariff and nontariff barriers, should enable the President to make progress toward a more open and equitable trading system. The Aluminum Association's position has long been for the reduction and elimination of tariff disparities among nations and for their subsequent harmonization at the lowest possible levels. Unfortunately, little progress was gained in the Kennedy Round toward the reduction of aluminum tariffs and the resulting pattern is discriminatory to the United States. For example, the European Community tariff on primary ingot is 7 percent and the Japanese 9 percent, compared to a specific U.S. duty of 1 cent a pound, which amounts to 4 percent of the current United States list price. The disparity in aluminum tariffs was actually widened as a result of the last round of GATT negotiations. The degree of discrimination against United States exports has increased as a result of the enlargement of the European Community and its agreements with non-candidate countries. The original EC countries and the United Kingdom have been major export markets for the U.S. aluminum. The EFTA countries have a preferential position over the United States in the United Kingdom market. Within a few years almost all producing countries in Western Europe, plus some in Africa and some in South America, will be within a giant free trade zone.

TITLE II

The provisions for import relief can be helpful in individual cases of market disruption and injury. The U.S. aluminum industry is particularly vulnerable to disruptive marketing practices. First, the U.S. market is the world's largest national market by a very wide margin. Second, foreigners enter the U.S. market easily. Third, primary aluminum production is highly capital intensive and when new production comes onstream or when there is a decline in home demand for primary aluminum, producers have an incentive to maintain production as close to possible to capacity and to sell the excess in foreign markets. The burden of adjustment, therefore, is shifted onto the U.S. industry which is thus compelled to reduce its own output and, in turn, its employment. Profits necessarily are seriously damaged by such conditions. This is true not only for primary aluminum but also for semi-fabricated aluminum products which have a higher labor content. The need, therefore, is for safeguards against injurious import competition which can take several forms depending on the particular cause for the market disruption. It would be desirable to negotiate internationally agreed-upon rules to cover the use of safeguard measures by any country, so as to reduce the opportunity for escalating restrictions.

TITLES III AND IV

These titles encompass a variety of authorities for the President to deal with Unfair Trade Practices, title III, and International Trade Policy Management, title IV. These various authorities empower the President to raise and lower duties in a number of situations. The association hopes that the committee, in reviewing these provisions, would consider these two objectives:

One. To limit the use of these authorities so as to prevent any actions which could have the net effect of being detrimental to an industry which is basic to the U.S. economy, and highly dependent on foreign materials. More specifically, we are concerned about the possibility contained in these provisions to raise duties or impose import quotas which could have the effect of undermining our international competitive position by increasing our raw materials costs. We are also concerned about such actions that would have potential for precipitating retaliatory action and thus jeopardize our export position.

Two. To provide adequate procedural safeguards so that any action by the President under these titles would be preceded by ample notification and the procedures necessary for interested parties to present their views.

Section 405, which would give the President permanent authority to suspend import barriers "to restrain inflation" has inherent dangers and is inappropraite and unnecessary in the context of a trade bill. In our view, such authority should be granted by the Congress on an ad hoc basis, as the need arises. Much the same consideration applies to sections 401 through 404. For example, the authority provided by sections 403 and 404 comes into play after the lapse of the 5-year authorization period already provided by title I. If such authority is needed upon expiration of the 5-year authorization, it should be legislated at that time.

TITLE V

The proposed authority to extend most favored nation treatment to state-controlled economies presents problems to the U.S. aluminum industry. There is the fundamental question as to how effectively private, profit-dependent aluminum companies could compete against state-controlled suppliers. While it is an objective of government policy to expand commercial contacts with the Soviet Union and Eastern Europe, it must be recognized that Eastern trade is not necessarily conducted in accordance with Western commercial market principles or subject to the constraints of fully calculated costs and market pricing under which private companies do business. Therefore, the expansion of such trade should be subject to provisions which could be invoked quickly enough to protect domestic industry against disruptive imports. The prospect for disruptive trade will increase in the event of granting MFN treatment to imports from the Soviet Union, as well as from other Eastern European countries, at a time when the Soviet Union is vigorously seeking to expand its sales to the United States in order to pay for its imports from the United States.

We believe the market disruption provision, section 505, is inadequate to deal with the kind of problems that competition with state-trading-enterprises could create for domestic industries. Countries with state-controlled economies can readily direct their exports to any market to which they can easily gain access. Private aluminum companies, however, are subject to the constraints of the market place. As a result, there is general knowledge as to aluminum production, sales, and consumption in market place economies, However, similar data are not made available by the Soviet Union.

If we are to normalize trade relations with the Soviet Union in aluminum, it is very important to have adequate official information on Soviet capacity, production, shipments and consumption.

TITLE VI

The Aluminum Association accepts the need to provide the President with authority to participate, with other developed countries, in granting generalized tariff preferences on certain imports from developing countries.

Any such system of preferences should be uniform in application. It should be noted that the European Community does not provide general preferences for alumina or primary aluminum. Japan does provide general preferences for primary aluminum but limits them through an elaborate system of quotas. Clearly, if the United States provides generalized preferences while other major importing countries do not, serious distortions in aluminum trade could result at the expense of the United States.

In addition to the limitations stated in the proposed bill, provision should be made for the termination of such preferences to any countries which expropriate property owned by U.S. citizens and companies without prompt payment of adequate compensation.

This concludes the association's comments on individual sections of the proposed bill.

Looking ahead to the negotiations, we would like to underline a proposition which has been suggested in the administration's discussion of the pending bill. This involves the use of the sector approach in the negotiations where appropriate. We believe such an approach is most appropriate for aluminum, given its advanced technology, its international structure, its large capital investment in immobile facilities and the significant role which Government policy has played in determining the industry's growth and locations.

The case for the sector approach to aluminum trade negotiations is especially strong at this time. The industry worldwide is currently recovering from years of oversupply, distorted international growth complicated by governmental incentives provided by other countries in the form of financial credits, grants, subsidies, tax concessions and special import quotas and tariffs. Although the present demand for aluminum ingot is strong, the industry was so depressed until this year that prices, while improved, are still no higher than they were 15 years ago.

In our judgment the sectoral technique, in dealing with aluminum trade negotiations, would help greatly in promoting the continued recovery of the aluminum industry internationally. Such an approach would enable the United States and other negotiators to consider realistically the ramifications of the aluminum picture and the interrelationships of various elements of international economic policy.

To a limited degree, the sector approach to aluminum industry problems, at the international level, has already been used by the major western world aluminum producing countries. Late in 1971, the severe supply-demand imbalance the world over impelled West Germany to propose that the OECD Industry Committee create an ad hoc working party on aluminum. The proposal was adopted. Government delegations and their respective industry advisors, representing all of the major aluminum producing and consuming countries in the OECD, made up this ad hoc working party. They met a number of times in 1972 and early this year to discuss the ramifications of the supply-demand problem. A final report was made to the OECD Industry Committee and is to be published soon. The consensus among the participating countries is that the exchange of views and the resulting report were most constructive and made for a better understanding of the industry internationally.

The aluminum situation is particularly complex now, with the enlargement of the European Community, the proliferation of its preferential bilateral agreements, and the much sharper growth of foreign aluminum capacity and markets than here.

Under the present most-favored-nation policy, a tariff or other concession negotiated on a bilateral basis is automatically extended to all countries entitled to most-favored-nation treatment. Since it is unlikely that the unconditional MFN policy will be modified, the U.S. Government should not enter into any bilateral agreements involving aluminum, but should reserve any such concessions for an agreement involving all major trading countries. This is best accomplished by the sectoral approach.

In conclusion, the Aluminum Association supports the Trade Reform Act of 1973 as a means of assuring to the national economy the benefit of technologically alert and healthy basic industries, able to meet the nation's essential needs. In the case of the domestic aluminum industry, this does not mean an industry insulated from the bona fide competition of foreign suppliers in United States and in foreign markets. It does mean the U.S. industry should be afforded an equitable opportunity to compete with imports coming into U.S. markets, and as an exporter to foreign markets. The proposed Trade Reform Act, modified as suggested, Government-industry consultations, and the utilization of the sector approach in actual negotiations, should help produce an equitable trading system, to the benefit of the national economy and the aluminum industry.

Thank you very much.

Mr. ULLMAN. Thank you, Mr. Lipkowitz, for a very helpful concise statement. Without objection the appendixes to your statement will be placed in the record.

[The appendixes referred to follow:]

APPENDIX A.—NATURE OF THE ALUMINUM ASSOCIATION

The Aluminum Association is a non-profit, unincorporated organization comprised of companies engaged in the production and fabrication of aluminum within the United States. The Aluminum Association was organized in 1935 to promote the general welfare of the aluminum industry, its members and all others affected by it, and to increase the usefulness of the industry to the general public. As of the present time, the Association is comprised of 70 members which accounts for approximately 100% of the primary production in the United States and manufacturers roughly 80% of the country's semi-fabricated aluminum products. The following companies are members:

AE Div. Hoover Ball and Bearing Co.
Alcan Aluminum Corp.
Alloys and Chemicals Corp.
Aluminum Casting & Engineering Co.
Aluminum Co. of America
Aluminum Mills, Inc.
Aluminum Precision Products, Inc.
Amax Aluminum Co., Inc.
Amax Pacific Aluminum Corp.
American Aluminum Casting Co.
Anaconda Aluminum Co.
Anaconda Wire and Cable Co.
The Arcola Wire Co.
Atomized Metal Powders, Inc.
The Castings Corp.
Clendenin Bros., Inc.
Cliff Manufacturing Co.
Club Products Co.
Copperweld Steel Co.
Eck Industries, Inc.
Ekco Products, Inc.
Extruded Metals
Fairfield Aluminum Casting Co.
Fischer Casting Co., Inc.
Foote Mineral Co.
General Cable Corp.
General Extrusions, Inc.
The Harvey Metal Corp.
Hitchcock Industries, Inc.
Howmet Corp.
Kagan-Dixon Wire Corp.
Kaiser Aluminum & Chemical Corp.
Kawecki Berylco Industries, Inc.
Magnode Products, Inc.
Mansfield Brass & Aluminum Corp.
Martin Marietta Aluminum, Inc.
Minatex Corp.
Morris Bean & Co.

National Aluminum Corp.
Nichols-Homeshield, Inc.
Noranda Aluminum, Inc.
Norandex, Inc.
Olin Corp.
Permold, Inc.
Phifer Wire Products, Inc.
Progress Foundries
Reliable Castings Corp.
Republic Aluminum Co.
Revere Copper and Brass, Inc.
Reynolds Metals Co.
RJR Archer, Inc.
Rome Cable
Ross Aluminum Foundries
Russell Anaconda Aluminum, Inc.
Saramar Aluminum Co.
Scovill Manufacturing Co.
Season-All Industries, Inc.
S-G Metals Industries, Inc.
Silberline Manufacturing Co., Inc.
Southwire Co.
Stahl Specialty Co.
Texas Instruments, Inc.
United Aluminum Corp.
U.S. Reduction Co.
V.A.W. of America, Inc.
Valley Metallurgical Processing Co., Inc.
Vulcan Materials Co.
Warner Mfg. Corp.
Wells Aluminum Corp.
Wolverine Tube Division

APPENDIX B.—MEMORANDUM

Subject: Position of the Aluminum Association on Foreign Trade and Investment Policy.

A. INTRODUCTION

1. The Administration presently is considering new trade legislation and strategy for a new round of multilateral trade negotiations to reduce tariff and nontariff barriers. This is in anticipation of the major round of trade negotiations agreed to as part of the post-Smithsonian settlement to commence in late 1973.

2. President Nixon has stated that such legislation also will include a number of other provisions having to do with the establishment of new rules for the fairer conduct of world trade, the opening of new opportunities for the poorer nations to earn the foreign exchange required for their development, and a system of safeguards against disruptive imports.

3. In any event, the issues of foreign trade and investment will be lively and contentious questions in the 93rd Congress.

4. Therefore, it is timely and appropriate that The Aluminum Association review its position and set forth its recommendations for primary aluminum and semi-fabricated aluminum products.

B. BACKGROUND

1. By its very nature, the U.S. aluminum industry is international in outlook, as well as in operation. This basic characteristic extends from the mining of the industry's major raw material to the marketting of its products.

Bauxite, the principal and most economical mineral source for aluminum, generally is located in the world's equatorial belt largely in developing nations. The United States has been relying, in great measure, on foreign deposits, and as the demand for aluminum in the U.S. grows, so will the industry's requirement for its raw materials. Continued strong international relationships and mutually beneficial supply agreements with other countries—both developed and developing—are essential for the U.S. aluimnum industry to provide adequate raw material supplies in the future.

The U.S. aluminum industry is also international in outlook because of the necessity for accessibility to world markets. Aluminum is a world commodity, and demand is not governed by national boundaries.

Observers agree that the trend towards political/economic blocs continues in the world, as exemplified by the enlargement of the European Economic Community. When one considers the major economic groupings, it is clear that access by the aluminum industry into one trading bloc from the other requires not only equitable trading agreements, but may require the location of facilities within the political/economic center as well, not only to gain the access to the bloc market, but also to satisfy attitudes of sovereignty which many countries have concerning their own economic development.

These basic forces, as briefly outlined above, are among the reasons the U.S. aluminum industry is necessarily international in both outlook and action.

2. The aluminum industry continues to become increasingly international. This reflects evolutionary developments in the long established characteristics of

the aluminum industry in terms of patterns of international trade, investment, marketing, transfer of technology, low unit freight costs, proliferation of international production, and sourcing of raw materials—all of which have led to the multinational character of the industry. This is true for both the United States and foreign industry.

3. The industry's internationalization reflects its ability to undertake investment and manufacturing in this capital intensive industry wherever in the world they can be done most economically. To be competitive worldwide, including the U.S. market, the domestic industry must have the freedom to be as international in its activities as its foreign competitors are.

4. From the point of view of trade policy and investment policy, however, the world system is marked by discrimination and restrictions in tariff and nontariff barriers, in terms and conditions for investment, and by government subvention and subsidization—all of which tend to distort patterns of trade and production.

5. Small tariff differentials can have an important effect on the pattern of primary aluminum trade because these markets are intensely competitive. The situation with regard to semi-fabs is more complicated, but wide disparities of tariff rates in major producing countries exist there as well. While the Kennedy Round resulted in most aluminum tariffs of the major industrial nations being lowered and in some cases the gap between the generally lower U.S. tariff and the higher foreign tariff being narrowed, the tariff disparity was actually widened in some important instances.

6. A wide variety of nontariff barriers also exist which differ greatly from country to country but nonetheless result in trade distortions. As tariff rates have declined in recent years, there has been a growing tendency on the part of some major industrial countries and regions to rely more heavily on nontariff import barriers and export subsidies.

7. Investment conditions affected by government policy also vary from country to country. Two aspects of government investment policy are involved. First are various barriers and discriminations against foreign direct investment. Such restrictions should be removed; permitting the marketplace to determine the flow of trade and investment will result in the most efficient pattern of world production. Second are various measures which governments apply to encourage investment and production, but which can have the effect of encouraging and supporting uneconomic production with resulting distortions in patterns of trade.

8. The Eastern European countries, especially the Soviet Union, pose a special problem because the cost disciplines which affect private company pricing do not necessarily affect pricing in these state trading countries. Consequently, their participation in the Western world on an equal footing with private companies could be seriously disruptive.

C. PRINCIPLES OF INTERNATIONAL TRADE

The following principles underlie the position of the Aluminum Association on foreign trade and investment policy:

1. The development and maintenance of international market conditions which are compatible with the health and growth of the U.S. aluminum industry and which also promote the health and growth of aluminum markets internationally.

2. The establishment and maintenance of international trade and investment conditions which permit U.S. aluminum manufacturers to compete on an equitable business basis with foreign manufacturers, both in the United States and foreign markets.

D. OBJECTIVES AND TECHNIQUES

1. *The reduction and ultimate elimination of the differentials in aluminum tariffs among all the major industrial countries and regions of the world.*

Discussion.—This principle envisions, as the first step, the equalization of the aluminum tariffs of all the major industrial countries and regions. This would be accomplished by each adjusting tariffs downward or upward, as the case may be, to achieve parity. Once tariff parity is achieved, all these countries and regions would move together pursuant to a mutually agreeable timetable toward the ultimate eliminaion of the remaining tariffs. The achievement of zero duties would serve the purpose of eliminating all tariff discriminations which United States exports otherwise face, including the discrimination of the European Community's common external tariff which favors its nine members as well as the network of preferences constructed around the EEC encompassing the non-member EFTA countries (including presumably Norway) as well as the preferences accorded to the associated countries and certain Mediterranean countries.

2. *Along with tariffs, after governmental controls which interfere with the evolution of a fair international aluminum market should be equalized and ultimately eliminated.*

Discussion.—Nontariff import barriers, export subsidies and other such controls of specific application to aluminum should be eliminated. Those of general application which, for one reason or another, cannot be eliminated should be equalized at the same time aluminum tariffs are equalized, or quantified to the maximum extent possible and compensated for by adjustments in determining the equalized tariffs.

3. *The sectoral technique should be employed in future aluminum negotiations.*

Discussion.—Experience during the Kennedy Round suggests that this technique is particularly adaptable to the world aluminum industry which for reasons of technology and scale of production is organized on multinational lines and is characterized by generally comparable efficiency on the part of major producers. The objective of a sectoral negotiation to establish equality of opportunity for the industry concerned in all major markets is clearly compatible with the objectives and principles set forth above. Further, sectoral negotiations make possible simultaneous examination of all major barriers to trade and all the different factors that determine production and investment in the aluminum sector. The sectoral approach not only addresses itself to the establishment of more equitable trading conditions within the sector but also makes it possible to formulate guidelines for future behavior in the field of government intervention, investment, and possible adjustment programs.

4. *The U.S. Government should refrain from making any further tariff or other concessions on aluminum except in a sectoral negotiation in which all other major trading countries participate.*

Discussion.—Under the present most-favored-nation policy, a tariff or other concession negotiated on a bilateral basis is automatically extended to all countries entitled to MFN treatment. Since it is unlikely that the unconditional MFN policy will be modified, the U.S. Government should not enter into any bilateral agreements involving aluminum, but should reserve any such concessions for an agreement involving all major trading countries. This is best accomplished by the sectoral approach.

5. *The adoption of adequate safeguards against injurious imports.*

Discussion.—The United States aluminum industry is particularly vulnerable to disruptive marketing practices. First, the U. S. market is the world's largest national market by a very wide margin. Second, foreigners have entered the United States market easily. Third, primary aluminum production is highly capital intensive and when new production comes onstream or when there is a decline in home demand for primary aluminum, the producers have an incentive to maintain production as close as possible to capacity and to sell the excess in foreign markets, in particular the United States market. The burden of adjustment, therefore, is shifted onto the United States industry which is thus compelled to reduce its own output and, in turn, its employment. Profits necessarily are seriously damaged by such conditions. This is true not only for primary aluminum but also for semi-fabricated aluminum products which have a higher labor content. The need, therefore, is for safeguards against injurious import competition which can take several forms depending on the particular cause for the market disruption. It would be desirable to negotiate internationally agreed-upon rules to cover the use of safeguard measures by any country. This would be consistent with the principle of equal access, and would reduce the opportunity for escalating restrictions.

a. *Escape Clause.*—Upon finding that increased imports do or might contribute substantially toward serious injury, the President should be authorized to invoke quickly higher duties or quotas, or to negotiate voluntary export restraints so as to avoid the injurious effect of the imports. The purpose here is to moderate import growth which is harmful to the domestic industry, particularly since the heavy capital investments already made in basic aluminum producing and fabricating facilities cannot be shifted or reallocated to other industries.

b. *Antidumping and countervailing duties.*—For the same reason as stated above, the United States aluminum industry also is vulnerable to price discrimination practices, whether practiced by individual foreign firms or supported by foreign government subsidization of exports. Enforcement of the antidumping act in the former instance and of the countervailing duty provision in cases involving subsidies granted upon exportation is to be encouraged.

c. *Adjustment assistance.*—While adjustment assistance for firms may be appropriate under certain circumstances, it is unlikely to be either effective or desirable in the case of a major industry such as the primary aluminum industry which, as noted, is characterized by large fixed costs and capital equipment which is uniquely tied to aluminum production and fabrication and is not economically mobile.

6. *East-West Trade.*

The assurances the Soviet Union has given to the United States Government under the recent trade agreement between the two to avoid disruptive sales are not adequate and there should be specific provisions in the United States legislation implementing such trade agreements to deal with this matter.

Discussion.—While it it an objective of government policy to expand commercial contacts with the Soviet Union and Eastern Europe, it must be recognized that Eastern trade is not necessarily conducted in accordance with Western commercial market principles or subject to the constraints of fully calculated costs and market pricing under which private companies do business. Therefore, the expansion of such trade can only be effectively conducted subject to adequate provisions which can be invoked quickly to protect the domestic industry against disruptive imports. The prospect for disruptive trade will increase in the event of granting MFN treatment to imports from the Soviet Union, as well as from other Eastern European countries, and with the Soviet Union vigorously seeking to expand its sales to the United States in order to pay for its imports from the United States.

7. *Generalized Preferences.*

Tny trade preferences granted by developed countries to developing nations should be comparable as to their nature and extent and not conditioned upon granting reverse preferences by the beneficiary nations.

Discussion.—The granting of any trade preferences, of whatever nature, is inconsistent with the principles and objectives set forth above. However, there does appear to be some justification for the granting of generalized preferences to the developing countries as a way of opening new opportunities for them to earn the foreign exchange required for their development. Nonetheless, any such system of preferences should be uniform in application and should not be conditioned upon the grantor nations receiving reverse preferences. Further, safeguards should be included to provide for the termination of such preferences to any countries which expropriate property owned by U.S. citizens and companies without prompt payment of adequate compensation. With respect to aluminum, the subject of generalized preferences becomes academic if, as proposed above, all aluminum tariffs were to be eliminated.

8. *Foreign Investment.*

No measures to restrict or penalize foreign direct investment or technology transfers should be taken by the U.S., and the existing controls under the OFDI porgram should be removed as soon as possible. Similarly, the U.S. Government should encourage foreign governments to treat U.S. investors equitably and without discrimination.

Discussion.—To assure adequate supplies of aluminum at competitive prices in the United States and to be able to serve growing foreign markets for aluminum, U.S. aluminum companies must be free to engage in overseas investment and production at all stages of aluminum production without being disadvantaged by either U.S. or host government policies in relation to their foreign competitors. Measures which have been proposed to increase or to accelerate the payment of taxes on foreign source income would have the effect of substantially reducing the competitive position of the U.S. aluminum industry in its overseas operations.

Mr. ULLMAN. Are there questions?

Mr. Duncan.

Mr. DUNCAN. Thank you very much. I was quite interested on page 7 of your statement in your reference to title V you say, "proposed authority to extend most favored nation treatment to state-controlled economies presents problems to the U.S. aluminum industry." Isn't it true that in state controlled societies that nontariff barriers are usually administrative and in our country they are legislative?

Mr. LIPKOWITZ. Yes, I think that is part of our problem. Our problem also is that in the aluminum industry we haven't had any real experience in market competition with state-controlled economies. Even in the United States generally, most of our past trade with the Soviet Union has really been in effect a barter kind of arrangement. They needed our wheat. In exchange, we received primarily what we don't produce here. But true competition with a state controlled economy doesn't exist in any of our major basic industries in this country and it is a wholly different ball game if you have to compete with those who have all the resources of a state behind them.

Mr. DUNCAN. Do you still consider the import quotas a major non-tariff barrier that affects the aluminum trade in the world?

Mr. LIPKOWITZ. Yes, it does affect us in various parts of the world to varying degrees and that is why we think that it is in the sector type of negotiations where we can deal with both tariffs and non-tariff barriers. Since so many of the other countries are also international traders, talking now of the Western World countries, we can have a very meaningful preliminary aluminium negotiation which would involve tariff and non-tariff barriers of various sorts.

Mr. DUNCAN. I take it that you do believe in international free trade but for trade to be free it must also be fair, is that correct?

Mr. LIPKOWITZ. That is right, we should have an equitable opportunity. This is a growing industry and we are not trying to hold on to a fixed market. We are trying to have an opportunity to participate in a growing market.

Mr. DUNCAN. What was the reason for the widening of the disparity of aluminum tariffs in the last negotiations?

Mr. LIPKOWITZ. During the Kennedy round the United States agreed to reduce its tariff but the Common Market resisted all efforts to reduce its basic tariff. It did allow an import quota at a lower rate, a temporary import quota which was renewable from time to time and more recently they modified it. Originally it was 9 percent and a quota at 5 percent. They modified it to a straight 7 percent. That 7 percent compares with what amounts to a 4 percent tariff here. So we gave way on aluminum but they did not give way on aluminum. As a result the disparity was widened on ingot. On semi-fabricated products they gave way very slightly, far less than we did so that the disparity there in most cases was widened too.

Mr. DUNCAN. You mentioned that we have a 4 percent tariff on ingot coming into this country.

Mr. LIPKOWITZ. That is right.

Mr. DUNCAN. What does Canada have for example?

Mr. LIPKOWITZ. It is the same. In the United States and Canada the tariff on aluminum, talking of primary aluminum, the basic aluminum, is a specific duty of 1 cent a pound, so that the ad valorem equivalent, which is the basis used in Europe and most other countries, would vary according to what the market price happens to be. The list price here currently is 25 cents, and we are glad to say that the real price is up in that range too now. So that it would be the equivalent of 4 percent as against 7 percent in the Common Market.

Mr. DUNCAN. And 9 percent, I believe you said, in Japan?

Mr. LIPKOWITZ. In Japan, that is right.

Mr. DUNCAN. My time is up. I certainly thank you for a fine statement.

Mr. LIPKOWITZ. You are welcome.

Mr. ULLMAN. Mrs. Griffiths.

Mrs. GRIFFITHS. I am interested in your reply on the Kennedy round. Did you support the Kennedy round?

Mr. LIPKOWITZ. Yes, we did the best we could there working with the negotiators, supplying them information, but there again we ran into the fact that aluminum has its unique problems, and aluminum was one of many, many industries considered simultaneously. There was some tentative consideration of a sector approach at the start of the Kennedy round, but that never really materialized for aluminum. So that we were part of the whole general package there, and sort of got lost in the shuffle.

Mrs. GRIFFITHS. We had a witness here yesterday who says that everybody got lost in the shuffle, that the Kennedy round was a very bad round for the United States and its producers. He also pointed out, and I think quite correctly, and I think this committee in general would agree that no administration, Democrat or Republican, has ever used the resources available to them for a fairer deal for American products in foreign markets. If these things are true, then why do you support this bill?

Mr. LIPKOWITZ. Well, we are hopeful that, in the actual negotiations, we can have the sector approach. We do think we have to work out a basic set of rules for trade and the only way to work them out is through negotiations. That is why our support for the bill is with suggestions for modification. We feel that just granting the MFN treatment to nonmarket countries is dangerous. We think there should be more specific kinds of safeguards there. In the case of the aluminum industry, we even have a problem of getting proper information on which to go forward.

Mrs. GRIFFITHS. It was obvious from your testimony. All you had to do was think about it. Sure, that is right. It seems to me that for those people who are supporting this bill that hope is springing against the history of negotiations. We have taken one beating after another. We act like we have the whole world to give away, and we have been giving it away. I am sort of going along with the idea that it would be a much better thought if the administration used the availabilities of this market as its real weapon, and the powers it now has, and reduced some of these barriers for our own goods. When you look back at history there is no need looking forward with hope. Why hope? What is the basis for it? The history of what we have done is pretty bad.

I do appreciate it, and I think your testimony was excellent and you made clear some of the problems that you and other industries are going to face. I do thank you.

Mr. LIPKOWITZ. Thank you.

Mr. ULLMAN. Mr. Brotzman.

Mr. BROTZMAN. Thank you, Mr. Chairman.

Mr. Lipkowitz, I think your testimony has been helpful. I just have one question here relative to the point that you make about title VI.

If I understand your testimony, you do endorse granting to the President the authority to grant general preferences. On the 9th page, however, you point out the European Community does not provide general preferences for alumina, and that Japan also has a limitation on their grants through a system of quotas. I want to be sure I understand correctly.

You do embrace the provisions of title VI, but you want the President, whoever it might be, not to grant general preferences unless these barriers are broken down. Do I understand correctly?

Mr. LIPKOWITZ. That is right. I think that we want the general preference approach to be on the same basis as the negotiations of tariffs and non-tariff barriers. In other words, that there be an equitable relationship within the aluminum industry among the international competitors. If Japan and the European Community hold back and we open our doors, then we get a disproportionate amount of whatever comes in as a result of the generalized preferences, and we feel that that is another distortion that we ought to avoid. Again, it is one of the reasons why we feel strongly that the only way these negotiations can really work, as far as aluminum is concerned, is to first take a sector approach, because we have had so many negative results in the past.

Mr. BROTZMAN. I understand your answer. Thank you very much.

Mr. ULLMAN. Mr. Rostenkowski.

Mr. ROSTENKOWSKI. Mr. Lipkowitz, do you have any feeling that the Presidential tariff cutting authority in title I should be limited or not?

Mr. LIPKOWITZ. Well, I think it is a question of negotiations. Our tariffs are so low in the aluminum industry already that from the aluminum viewpoint our main concern is equity rather than trying to preserve a relatively low tariff. As indicated, our basic ingot tariff is only 4 percent. Even on our semifabricated items it amounts to only 7 percent, and those are items with a relatively high labor content.

I was looking at it from the parochial viewpoint of one industry, and the viewpoint of our industry is that the most important thing is to first get the other countries down to our level, and in the case of our industry, we are perfectly willing to keep going down as long as we are on a parity, not on a lop-sided basis as we have been for years.

Mr. ROSTENKOWSKI. Do you feel that the requested non-tariff barrier authority should be approved or does the association have some misgivings about the authority?

Mr. LIPKOWITZ. No, we recognize that as a much more amorphous set of problems than tariffs are. We feel it is important to deal with the non-tariff barriers and, until you get into the nitty-gritty details of the specific countries and specific products, it is hard to really deal specifically with them. But we feel they have to be faced and dealt with even though they are more difficult to specify.

Mr. ROSTENKOWSKI. Thank you, Mr. Chairman.

Thank you, Mr. Lipkowitz.

Mr. ULLMAN. Mr. Archer.

Mr. ARCHER. Mr. Lipkowitz, how important are tax rates in the location of aluminum plants throughout the world?

Mr. LIPKOWITZ. It is one factor. As far as primary aluminum is concerned, the big factors there would be the power costs, the raw material cost, and transportation more than labor. As you fabricate aluminum, labor becomes more of a factor. So that with semifabricated products, labor is very much a factor. It is a factor in primary aluminum too, but I am just saying that it is less of a factor than it is with the semi-fabs.

Mr. ARCHER. How would you rate the tax policy in your list of items as far as determining the location of a plant?

Mr. LIPKOWITZ. My guess is that it would vary with both the company and the country. The association has not become involved in tax policy questions as such. It is a rather complex area. We haven't taken any position as an association on the Treasury tax proposals, for example. Is that what you are referring to?

Mr. ARCHER. Actually, I was referring to the relative incidence of taxes from one country to another on the aluminum industry, and how big a factor that was in the location of your plants. Is it basically the question of power, transportation, and that sort of thing, as major factors, or is tax policy of great importance?

Mr. LIPKOWITZ. Excuse me, Mr. Archer. There is one very important factor historically, which is that many countries in order to attract aluminum plants have given tax incentives. In the conventional sense, tax policy was not right up there on top, but government incentives through tax abatements and so on, and special preferential arrangements have been crucial in the location of plants around the world. This was particularly true in various foreign countries, and that has caused some distortion in the location of plants and the sites of plants, and the rate of growth of capacity, and helped to stimulate the kind of over-supply situation we are finally correcting.

Mr. ARCHER. How would you suggest that the United States meet the competition from products from a state-controlled economy, as you put it? Do you think we should continue with the most favored nation approach, and is that a satisfactory method of combating that problem, or is there a better way to do it?

Mr. LIPKOWITZ. In the case of aluminum, we had some indirect experience with Soviet aluminum many years ago, 15 years ago, suddenly coming into the Western European market, and it had worldwide repercussions on the aluminum industry markets. We feel, first of all, in our industry that we need that rudimentary information in order to be able to gauge to what extent they are likely to be factors in world markets. We have a pretty good idea where the European countries and producers stand, where the Japanese stand, and so on. We only have Western World estimates because the Soviet Union considers its nonferrous industry data a state secret. They do not publish any data on production capacity of consumption, so that we are in the dark in appraising what kind of a factor they are going to be.

Then there is this whole other question that we are not dealing with another company that has to earn a profit, as to meet its costs. If the Soviet Government just wants to generate foreign exchange, it may sell one product or another, and we don't have a magic answer to that, frankly. We know just giving them most favored nation treatment in the case of aluminum means simply that the duty they would have to pay here on ingot coming in would drop overnight from 4 cents a pound to one cent a pound currently. If they brought in a semifabricated item, it would drop from 7 cents a pound to 2 cents a pound. So that it is a drastic cut overnight in the duty.

Mr. ARCHER. The problem, I would assume, is not isolated to the aluminum industry when it comes to competition from a state-controlled economy.

Mr. LIPKOWITZ. That is right.

Mr. ARCHER. I was wondering if you had any specific recommendations to the Committee as to how we should treat this in this legislation?

Mr. LIPKOWITZ. No, we don't. We feel that first of all we have to address ourselves to the fact that we are a market economy, and we assume the market will take care of competition and assure us of reasonable prices and prevent disruption. In this case we cannot take that for granted.

Mr. ARCHER. So that you are basically just outlining the problem to the Committee and hoping that we will come up with a solution, is that right?

Mr. LIPKOWITZ. That is right.

Mr. ARCHER. All right. Thank you.

Mr. ULLMAN. Mr. Vanik.

Mr. VANIK. Mr. Chairman, I just have one question.

Do a good many companies process bauxite in small island nations of the Western Hemisphere, and then ship the refined product to the United States for processing? Why do they have these island processing facilities? Does it relate in any way to the income tax advantages of that kind of operation? Why not process the whole business here if it is going to be used for domestic production?

Mr. LIPKOWITZ. The U.S. industry has been using foreign bauxite for over a half century.

Mr. VANIK. I understand that, but it is taken out of foreign countries and a good part of it is processed in the Western Hemisphere islands, which are generally considered pretty much as tax havens. What is the economics of this processing in the island countries instead of bringing the bauxite directly to the United States for thorough, complete processing?

Mr. LIPKOWITZ. Well, originally it was brought here, and this is largely the pressure of these developing countries wanting to have as much industrialization as they can at home.

Mr. VANIK. I have no argument with the processing of bauxite in the area of the country of mining. What I am talking about is its transshipment to another island for processing. This is an entirely different matter.

Mr. LIPKOWITZ. Yes, it is.

Mr. VANIK. How can you explain then the moving of the processing operation from the country of recovery to another place before it reaches the United States?

Mr. LIPKOWITZ. As far as the U.S. industry is concerned, I think there is only one such facility, in the Virgin Islands, actually in U.S. territory. Otherwise all overseas bauxite processing facilities are in countries of origin such as Jamaica. They are not just in the Caribbean. They are also located in such countries as Australia, and Surinam, and Guinea—Africa.

Mr. VANIK. Isn't the Surinam bauxite taken somewhere else for processing?

Mr. LIPKOWITZ. No. Surinam is a bauxite producing country.

Mr. VANIK. I can't argue about their insisting on some processing at the place of recovery. That makes sense for them. What I cannot understand is the growing trend toward the processing of bauxite in tax haven countries for transshipment to the United States, that is a rather costly part of the operation, and that part of it is done offshore. I am afraid this might become a growing tendency, and I wanted to know whether it related to something that was economically wise, or something that was economically wise because of some tax advantages.

Mr. LIPKOWITZ. All the major U.S. producing companies, insofar as they are doing any processing overseas of the bauxite into alumina, which is the intermediate product, are doing it, with one exception, in the country where the bauxite is being mined. That one exception is the plant in St. Croix, V.I.

Mr. VANIK. What you are telling me is that this is not an industry-wide tendency?

Mr. LIPKOWITZ. No, not as far as the United States is concerned.

Mr. VANIK. Thank you.

Mr. ULLMAN. Are there further questions.

Mr. COLLIER. I have just one question.

Mr. ULLMAN. Mr. Collier.

Mr. COLLIER. On page 5 of your testimony you say that "The provisions for import relief can be helpful in individual cases of market disruption." The fact of the matter is that the import relief provisions have been in the Tariff Act since 1951 and have in fact been totally ineffective, have they not?

Mr. LIPKOWITZ. As far as we in the aluminum industry are concerned they have not been effective in the past. We have been a growing industry. We haven't been directly involved. We haven't invoked those clauses in the past, and we think they would need a lot of strengthening in order to provide any meaningful relief. There is no question about that. We haven't had any benefit from any past import relief safeguards, so-called.

Mr. COLLIER. This is not unique to the aluminum industry. In fact, few industries have actually enjoyed any relief from those provisions, and you say they would have to be more effectively administered.

My question would be, how in your opinion could the import relief provisions be effective if they are intended in fact to provide some assistance where there has been a market disruption or injury to any industry whether it would be yours or some other?

Mr. LIPKOWITZ. Well, I can speak best in terms of aluminum, and I would be glad to illustrate what we mean by individual cases. We feel very strongly that the focus on market disruption is an important step forward, because our foreign competition is in terms of individual markets, particular products, not across the board. We sell in a variety of markets be it ingot or screw machine stock, or sheet, or foil, and so on, and, therefore, we would have to focus on what is happening in a particular market and not whether there is injury to the whole industry. It gets diffused if you apply it against a whole industry.

One of the problems that has plagued our industry, even domestically, is the lack of adequate information on imports broken down according to the markets in which those imports move. For example, screw machine stock, which comes from Japan and Yugoslavia, is a form of aluminum rod. In the imports it is just classified as "rod" rather than broken down according to markets. We still have not made any headway in getting even domestic information on that basis.

If we are going to deal with market disruption, we are going to have to deal with market information. There is a lot of work to do if we are going to address ourselves meaningfully to individual cases, instead of taking a generalized aproach as to whether the whole industry is being hurt. The problem is not that simple any more.

Mr. Collier. Thank you, sir.

Thank you, Mr. Chairman.

Mr. Ullman. Are there further questions?

If not, thank you very much, Mr. Lipkowitz.

Mr. Lipkowitz. Thank you, Mr. Chairman.

Mr. Ullman. Our next witness on the subject of agriculture and related subjects is Mr. Peter E. Marble, on behalf of the American National Cattlemen's Association.

Mr. Marble, we welcome you before the committee. We will be very pleased to hear your views. Will you please further identify yourself for the record, and proceed as you see fit.

STATEMENT OF PETER E. MARBLE, ON BEHALF OF THE AMERICAN NATIONAL CATTLEMEN'S ASSOCIATION

Summary

1. U.S. Cattle Producers Advocate: a. An aggressive "reciprocal" trade program for beef in world trade.
2. The "Meat Import Act of 1964" represents a "model" enactment in equitable progressive world trade legislation. The U.S. government should insist upon the adoption of its market sharing principles by all major beef consuming and producing nations.
3. U.S. beef prices today and prospectively are below those in the major importing countries. Higher beef prices are mainly the result of increasing consumer affluence and inflationary demand-pull factors.
4. American agriculture has the capacity to increase and sell at least 3 billion dollars worth of beef in international trade if provided with the necessary and deserved free market incentives.
5. American consumers, taxpayers and the balance of payments situation would benefit greatly by an aggressively expanded *"reciprocal"* trade of beef in world markets.
6. *"The proposed Trade Reform Act of 1973"* has substantial merit. Stronger guarantees of Congressional and commodity group input and sanction should be incorporated into the proposal.
7. The "Flanigan Report" presents a realistic appraisal of the domestic and international factors influencing world trade in beef.

Mr. Marble. Thank you, Mr. Chairman, and members of the committee.

My remarks will be hopefully quite brief. I believe the committee has been supplied with a copy of my statement, and attached to that is a summary of the major points that I have made.

For further identification, I am Peter E. Marble, resident partner of a range beef cattle operation in Elko County, Nev. My particular place of residence is Deeth, Nev., and I am here today to present a statement that reflects my own views and those generally of the American National Cattlemen's Association.

Mr. Ullman. Do you want your full statement in the record?

Mr. Marble. Yes, Mr. Chairman.

Mr. Ullman. Without objection, that will be done, together with the supplemental materials.

Without objection, the supplemental materials from the previous witness will be included in the record at the appropriate place.

You may proceed, Mr. Marble.

Mr. MARBLE. Thank you.

As I said, I really believe the statement speaks for itself, and there would be no useful purpose in reading it. The summary, I think, adequately identifies the general intent of cattle producers with regard to the proposed Trade Reform Act of 1973.

However, I draw your attention to page 11 to recite a couple of paragraphs that I think go the heart of our concern about the proposal. First, it is my judgment that the cattle industry generally supports the objectives set forth in the Trade Reform Act of 1973. Certainly we should assume a more aggressive, expansionary position in world trade. However, it would seem well that Congress should retain ultimate responsibility in these matters.

It is to that point we suggest some amendments as regard cattle producing in the United States. The following amendment is recommended to the proposed act:

When the President proposes the alteration of foreign trade arrangements including tariffs, quotas, licensing arrangements, sanitary and other regulations which specifically affect domestically produced agricultural commodities, we suggest that he shall:

A. Solicit the recommendation of the commodity group affected through hearings process, and

B. Secure the recommendation of both the Secretary of Agriculture and a representative of producers who are advisory to the Secretary on trade policy.

If a preponderence of testimony developed through hearing, the recommendation of the Secretary of Agriculture and his Producer Advisory Committee are favorable to the proposal and it later becomes the basis of an international trade agreement, such agreement shall become fully effective unless the Congress expresses disapproval by resolution within 180 days after appropriate Administration notice.

This suggestion, of course, goes to the point that in the proposed Trade Reform Act of 1973, Congress has, I think it is, 90 days to express their disapproval of an international agreement. [Continues reading:]

If the preponderance of testimony developed through hearings of the recommendation of the Secretary of Agriculture's Producer Advisory Committee are disfavorable to the proposal then any trade agreement incorporating such proposals shall be subject to the traditional ratification process of the Congress.

None of the authorities requested under the proposed Trade Act should be construed as or written so as to supersede the requirements of the Meat Import Act of 1964. In particular, the authorities requested relating to staging, inflation and surplus of payments should not apply to the U.S. livestock industry except within the market sharing principle of the 1964 Meat Import Act, applied and accepted on a worldwide basis.

Mr. Chairman, I won't go into the written statement in any more detail than with respect to these comments or the reading of that portion of the statement. I would like to reemphasize my industry's concern about the preservation of the market sharing reciprocal trade features of the Meat Import Act. Nothing should be done in the approval of this trade proposal to vitiate the very important and fair and reasonable provisions of that act.

The committee should give some consideration in the event that passage of this Act, is a probability to the effect on section 32 funds. Section 32 funds are funds derived from collection of duties on all imported commodities. These section 32 funds are expended or earmarked for school lunch programs, food stamp programs, and other programs that affect and benefit the needy in this country.

I don't specifically know the amount that is collected into the section 32 fund annually, but it is several hundred millions of dollars, as I recall. I think there should be some consideration as to some perhaps substitute, should this reform act be passed, and should the President reduce all of the existing tariffs which produce funds for this function that perhaps some alternative method should be considered to continue these programs.

Mr. Chairman, I think I will conclude my remarks without further expansion, and would be glad to answer any questions that the committee might have.

[Mr. Marble's prepared statement follows:]

STATEMENT OF PETER E. MARBLE, AMERICAN NATIONAL CATTLEMEN'S ASSOCIATION

I am Peter E. Marble, resident partner of a range beef cattle operation in Elko County, Nevada. I am here today to speak in behalf of my own views and those of the American National Cattlemen's Association.

By way of background, my employment and living has been exclusively related to ranching in Northeastern Nevada. I represent the third family generation so occupied in that area. A number of years ago, I held the Presidency of the Nevada Cattlemen's Association, a Vice Presidency and a number of other posts with the American National Cattlemen's Association. Currently, I am a Director of the National Livestock and Meat Board, Chicago, and Vice Chairman of its Beef Industry Council. It is my wish to emphasize that I am exclusively a rancher with no specific employment or experience in matters of international meat or livestock trade. What I report to you is an assessment from the rank and file producer viewpoint. There are a number of experienced packers and jobbers throughout the U.S. who have pioneered in the export of beef and should certainly be heard from by this Committee with regard to the technical problems and obstacles to reasonable fair play in the international trade of beef and meat. It is my understanding that it is the wish of the Committee to evaluate the Trade Reform Act of 1973 proposals from the standpoint of ranchers. It is my judgment that the large majority of U.S. cattle producers strongly recommend the following:

(1) Free, ungovernmentally regulated, unsubsidized domestic production and marketing of all U.S. livestock and beef in particular.

(2) A reincorporation of all farm land into full agricultural production in accordance with its highest and best free market economic use.

(3) And most importantly, adoption of the strongest governmental policy of international "*reciprocal*" agricultural trade. I wish to emphasize "*reciprocal*" as distinct from *free* trade.

U.S. BEEF IMPORTS

As a generalization the U.S. has had an "open door" policy on beef imports resstricted principally only by considerations of health, sanitation and product dumping. On the other hand Western European Countries—notably the E.E.C. group and Japan which have represented the strongest potential international beef buying centers have had severe tariff, quota, sanitary and other restrictions designed specifically to protect foreign producers from competition. The effect has been very adverse to our ability to export. Secondly, and again historically the lack of economical transportation to foreign countries in part due to lack of the proper kind of shipping facilities and their competitively high cost has made our beef much higher priced than that shipped from South America or Australia. The result has been that the U.S. has never exported much more than what is known in the trade as variety meats, livers, brains, hearts, tongues, etc.—but very limited amount of so-called primal cuts.

Not in any way to be overlooked, however, are the $189 million in tallow and greases and the $277 million of cattle and calf hides which we exported in 1972 against the relative smaller dollar sales of $62 million for variety meats and $50 million for beef. Small relative to our domestic production that these sales are, they do represent a very significant direct "*dollar*" contribution to our balance of payments problems. These sales are for cash on the barrel head. And they could be enormously larger.

A word of explanation about our "open door" policy relative to the quotas established under the Import Act of 1964. Some who have not understood the provisions of this Act have incorrectly assumed that it represented arbitrary restrictive protection for U.S. cattle producers such as that which protects foreign producers and that its enforcement has created unjustifiably high domestic consumer prices. This represents a misunderstanding. Under the Act, only the importation of fresh, frozen and chilled beef is limited and that rather generously to between 6% and 8% of total domestic production in any given year. The Import Act is in fact a unilateral declaration of "market sharing." There has never been any limitation on canned, cooked and cured products or live feeder cattle of which we receive quite a few, particularly from Canada and Mexico. It is true that a very small tariff charge has existed but it has been so minor in relation to the market price of beef or cattle as to have been insignificant as a restrictive influence. Meat and cattle from foot and mouth countries have also properly been restricted—except when processed (cooked)—because of the virulent decimation to live cattle that is associated with this disease. The really unique and contributory aspect of the *'64 Import Act* is that it not only guarantees foreign producers a share of the U.S. market, but it has great flexibility for consumers in its responsiveness to supply and demand conditions.

BEEF IN INTERNATIONAL TRADE

In the last several years international trade circumstances for beef have changed remarkably on several counts. Per capita incomes and consumer demand for beef within the developed nations has risen dramatically. Transportation costs and facilities in part on account of more economical air freight rates and efficiences through containerization of boat shipments have greatly improved U.S. beef export potential. Improvements in product handling and the increasing acceptibility of cuts rather than carcasses has made us more competitive through shipment by boat. Surrounding these circumstances is the universal upgrading of diet, appetite for beef and demands of sophisticated world travelers from and within every nation. The conventional wisdom used to be that there was just no way that the Englishman could be diverted from his steak and kidney pie or the Japanese from seaweed and pickled vegetables, but rising foreign consumer affluence has put the lie to this fairy tale.

Most of primal export goes to the international hotel and restaurant trade which represents a small fraction of ultimate demand potential. Very real practical impediments to marketing directly to consumers through retail stores exists because of the rigidities of historical practice on the part of foreign jobbers, retailers and consumers. I personally believe that if we backed up our beef exports with the kind of industry cooperational promotion that we have developed successfully in this country, this resistance would rapidly fall by the wayside. It is my view that our Government should implement greater "reciprocal" trade with legislative provision to implement cooperation international beef promotion. In a nut shell, a small levy against all beef in international trade should be imposed to finance promotion in the emerging beef consuming areas of the world.

The economics of international demand for beef has changed so greatly that now in the major consuming areas of the world, the price of beef is higher than in the U.S. In major areas of South America meat is now rationed. Australia, the largest exporter to this country has recently experienced labor and consumer demonstrations demanding that their government restrict their export program in favor of providing more of their own beef for home consumption. In European markets where prices now exceed our own, the product not only costs more, but is of a much lower—inferior quality and is merchandised generally under much less sanitary, attractive, modern and efficient circumstances than is true in America.

WORLD DEMAND FOR BEEF

At this point it is important to stress that higher prices for beef today at home and abroad do not represent a shortage of the product in any relative sense. They are higher principally because of monetary and fiscal policies as influenced in recent years by Government, business and labor, and more recently by a wave of increased consumer spending which have created a huge and distorted inflationary—excessive—dollar demand for the nation's favorite food. This conclusion is quite obvious in the face of the U.S. cattle industry having upped the per capita supply of beef from 50 pounds per person to over 100 pounds in just twenty years while at the same time the population was also expanding greatly. In Western Europe during this same period, consumption has increased from 20 to 30 lbs. to 50 lbs. annually. Consumption of beef in Japan has risen from perhaps two pounds to 8 pounds a year during this period.

One could go into great depths of economic, market, financial and consumer analysis relative to international beef trade, but there are some very simple generalizations that really tell the whole story as to what our nation's international agricultural policy should be. Firstly, it is obvious that beef really is the world's favorite food and the only thing that limits its consumption is the take home pay to buy it. The trend figures indicate that worldwide, consumers are eating much more beef every year. Secondly, with the assurance of the universality of appetite for beef there is no reason to think that Europeans, Japanese or anyone else wouldn't eat as much as we do and will when (a) they have the take home pay to buy it and (b) the supply is available.

Look for a minute at world beef production statistics. Roughly the world inventory of cattle is something over a billion head. Of that number the U.S. has about 100 million plus. Remarkably with perhaps less than 10% of world cattle numbers, we produce close to 30% of the total beef. These figures reveal the fabulous efficiency and potential of America's agricultural and beef cattle resources. It should be capitalized upon and developed. But to do so successfully will require much stronger assurance from the major potential beef importing nations that they will allow U.S. cattle producers to share a percentage of their beef markets without unreasonable restrictions except on the scientifically tested and legitimate basis of health and sanitation.

TRADE RECIPROCITY

So in specific, I personally and the American National Cattlemen's Association, generally, urge the Congress to adopt the strongest policy of "reciprocity" in the trading of beef and all livestock amongst the international community. I think a suitable target would be an insistence that American cattle producers have the prerogative of shipping and sharing about 10% of any foreign market without any complicating restrictions. In other words, I advocate applying the principle of the *Meat Import Act of 1964* to our international neighbors. We will share 10% or so of our beef market with the world and they should guarantee to us the same privilege. Congressional enactment in the matter would serve to put the world on notice and would assure U.S. producers a consistency of policy that would bridge the uncertainties of elections, changes in Administration, other officeholders and reflect a condition of stability in national policy that is very necessary to the long range investment requirements of an efficient, growing, productive domestic agricultural industry. The simple practical objective of the foregoing is that by nailing down a strong "reciprocal" trade policy, it will better allow us to ship our higher quality beef to markets where there is demand in exchange for and as a balance to U.S. imports of lower quality, less expensive products for which we have some demand.

It is true that the E.E.C. has temporarily suspended some tariffs on meat and the Japanese have apparently moderately increased their quotas. However, more permanent and permissive arrangements must be arrived at if the American beef industry is going to receive the economic, production and marketing stimulus that it needs and has to have to greatly expand domestic production and foreign trade. In particular, limitations should be imposed on handling costs, mark up, commissions and add ons that in the case of Japan result in U.S. beef being priced three times our cost of delivery. To a much lesser extent the same unfortunate practices exist in the E.E.C. Improvement in reciprocal sanitary and health regulations and inspection should be insisted upon.

From the American cattlemen's viewpoint, the practicalities of world trade are these. We have rather an *"open door"* for foreign producers to unload or dump beef into this country when it suits their purpose. The total of such imports has been running in the neighborhood of 10% of domestic production. For the past ten years increases in imports have naturally and obviously forced domestic prices down. During much of this period ranchers and farmers have operated at close to, or below the cost of production. So these imports have hurt and unfairly so. The supply-demand picture has changed dramatically during the past year, but today's prices must be considered against the last twenty years of relatively low prices and the cyclical, long term nature of production and price swings in beef production. As surely as day follows night, current production will once again outstrip near term domestic demand and prices will fall for that and a variety of other complex but fairly normal circumstances. Additionally because of the relatively greater prosperity of the U.S. economy, over the long run the U.S. consumer market can be expected to be a target for foreign beef producers. So as long as present inequities in international meat trade continue, American producers will be threatened, vulnerable and as a result less aggressive in expanding production than they would be if there were greater "reciprocity" in the marketplace.

MARKET POTENTIAL FOR U.S. AGRICULTURE

Look briefly at the international market potential for American agriculture. Our greatest immediate foreign market potential is among the E.E.C. countries numbering over two hundred million increasingly prosperous consumers and the Japanese market which includes one hundred million consumers.

The validity and importance of developing "reciprocal" trade from U.S. agriculture's standpoint is that the depressing effect of overburdening imports from time to time, could and can be counter balanced by equivalent exports. Bear in mind this mainly involves trading lower quality processing type meat, used in hamburger and the like, which we occasionally are short of, for high quality fed meat which the rest of the world is short of. The U.S. currently imports about one and a half billion pounds of fresh, frozen or chilled beef. If the E.E.C. countries were to increase their consumption from 50 to 60 pounds an increase of 10 pounds, and the Japanese from 10 to 20 pounds both easily within the realm of possibility, such increases of only 10 pounds per capita amount to an increase in total world usage of well over three billion pounds or twice what is being imported into this country today. The point of all of this is that if we had certain guaranteed "reciprocal" rights of trade, we would have the opportunity to strengthen and balance economic—financial conditions so that the industry would not have to resort to calling upon the U.S. government for assistance in the form of quotas, tariffs, or subsidies during the recurrent cyclical depressions that are natural to the farm and ranch industry but historically have always been worsened by one-sided international trade agreements.

U.S. BEEF EXPORTS

From the standpoint of the U.S. government and consumers as a whole, it should be obvious that developing the U.S. beef industry to its optimum through production and international competition offers a real and substantial solution to idle, soil banked acreage, crop subsidies, balance of trade and payment problems which have so plagued our economy and the real long run best interest of every consumer. Surely increases in beef cattle numbers and beef production resulting from stimulation by more attractive foreign market opportunity is at the same time going to guarantee the American household of even better sources of domestic supply at a reasonable cost than it has today.

Realistically, what is the potential economic benefit of expanding U.S. trade in beef? I should quickly like to underscore that I am a rancher not an expert in agricultural or world trade economics, but I don't believe the following speculation is too extreme. There is little doubt that during the next twenty years—if not sooner—there are not less than 500 million people outside the U.S. that will have the economic, take home pay potential to eat at least twenty pounds per capita more beef each year than they consume today. Assuming American agriculture through more "reciprocal" opportunities and effective marketing supplies only half this increased tonnage, it would require an increase in our national beef herd inventory of probably 12 million beef cattle or about 20 to 25% of the nation's current breeding herd inventory. How much farm land would this require? Well, I should doubt less than 5 acres and perhaps more like ten for each animal. So we are talking about an opportunity to increase the economic utilization of probably at least the equivalent of 100 million acres of farm land and creating perhaps 3 billion dollars or more in world trade potential. So while review of the current technical impediments to moving meat such as politically motivated sanitary requirements, arbitrary tariffs, licensing, commissions, etc. or lack of market development may seem superficial, petty or unimportant, their ultimate impact on our economic trade potential is very great indeed—really staggering.

I want to re-emphasize the inequity of our trading relationship with Japan. The U.S. has a trade deficit with this country of 4 billion and on top of it, we generously allow their direct investment in U.S. domestic business which they seem to be aggressively taking advantage of. Against this they have a terrifically rigid beef quota, tariff and licensing system which is so complex that it effectively closes the real potential of their markets to us. It is simply not fair. It's high time that those who represent us in government get tough with these inexcusable abuses of international trade and investment fair play.

EXPANDED BEEF EXPORTS AND THE U.S. CONSUMER

I think that it is appropriate to ask "where will the American consumer stand if we follow an expansionist program of beef export?" Surely the simplest answer to that is that if our industry produces a twenty percent larger inventory of cattle or any increase at all, the local American housewife is going to have the first shot at buying it. She is just bound to be better off with more cattle produced locally than if there is less. Unfortunately, we can't guarantee what future prices may be if American agriculture is allowed a free rein in the national and international marketplace without restrictive arbitrary interference. But we can guarantee this Committee, the Congress and housewives generally that historically wherever governments have controlled and managed agricultural resources as distinct from the free enterprise approach, that the citizens pay very dearly for inadequate supplies of food and sometimes don't eat at all. The lessons provided currently by Russia, China, Argentina, Chile and a host of countries throughout the world should make this pretty obvious.

ANCA POSITION ON TRADE REFORM ACT OF 1973

It is my judgment that the cattle industry is generally supportive of the objectives set forth in the Trade Reform Act of 1973. Certainly we should assume a more aggressive, expansionary position in world trade. However, it would seem well that Congress should retain ultimate responsibility in these matters. It is a matter of importance to us that agricultural exports and beef in paricular be guaranteed rights to foreign entry without regard to the import-export circumstance of or the trade balance of other U.S. products. This should be recognized in the Act. From this observation, it naturally follows that provision should be made for specific commodity group input from the private sector in the development of Administrative policy, negotiating strategy, etc. Section 113, Subchapter A is inadequate in this respect.

RECOMMENDED AMENDMENTS

In particular the following amendment is recommended to the Proposed Act.

When the President proposes the alteration of foreign trade arrangements including tariffs, quotas, licensing arrangements, sanitary and other regulations which specifically affect *domestically* produced agricultural commodities, he shall:

(a) solicit the recommendation of the commodity group effected through hearings process and,

(b) secure the recommendation of both the Secretary of Agriculture and a representative group of producers who are advisory to the Secretary on trade policy.

If a preponderence of testimony developed through hearings, the Recommendation of the Secretary of Agriculture and his Producer Advisory Committee are favorable to the proposal and it later becomes the basis of an international trade agreement, such agreement shall become fully effective unless the Congress expresses disapproval by resolution within 180 days after appropriate Administrative notice.

If the preponderence of testimony developed through hearings or the recommendation of the Secretary of Agriculture's Producer Advisory Committee are disfavorable to the proposal then any trade agreement incorporating such proposals shall be subject to the traditional ratification process of the Congress.

None of the authorities requested under the proposed Trade Act should be construed as or written so as to supersede the requirements of the Meat Import Act of 1964. In particular the authorities requested relating to stagging, inflation and surplus of payments should not apply to the U.S. livestock industry except within the market sharing principle of the 1964 Meat Import Act—applied and accepted worldwide.

THE FLANIGAN REPORT

In general the Flanigan Report appears thoughtful, thorough and appropriate to the circumstances of international trade, balance of payments, emerging world consumer demand and the realities of national politics and practical international negotiation. The direction of the Report which is well stated in its Conclusion and Recommendation surely will have support within the U.S. beef cattle sector.

The matter of real concern is not the proposed objectives of the Flanigan Report, but the means of implementation. It is all well and good that any Administration should have more negotiating flexibility. It is equally important that the private sector and Congress participate in establishing negotiating policy and both should ultimately have the right of approval. Such provision appears to be lacking in these proposals. For instance in the Report itself, it proposed review by an Advisory Committee of farm and commodity groups or public hearings. Neither seems to have taken place or if they did, it is not well known at the grass roots of the country.

For the American National Cattlemen's Association and myself, we greatly appreciate the opportunity for this discussion on the proposed Trade Reform Act of 1973. American cattlemen stand ready to expand their production and marketing under "reciprocal" circumstances. Changes should be undertaken within the closest advisory relationship between the cattle industry and those who negotiate in our behalf.

Mr. ULLMAN. Thank you, Mr. Marble.

You referred to the Flanigan report. This has not been made available. Do you have a copy of the summary and conclusions that you referred to?

Mr. MARBLE. Do I have a copy of the Flanigan Report.

Mr. ULLMAN. We have not been able to get it.

Mr. MARBLE. No. My reference, Mr. Chairman, to the Flanigan Report come about through receiving a copy of the Congressional Record in which Senator Humphrey had introduced what I understood to be the report, or at least excerpts from the report. I had the opportunity of appearing before the Senator's Subcommittee on Agricultural Trade Policy and in that connection was afforded what I understood to be the Flanigan report as it was placed in the Congressional Record.

No, I don't specifically have a copy of that report.

Mr. ULLMAN. Without objection, if we can get a copy of the summary and conclusions, I would direct the staff to make it available for the record at this point.

[Pertinent portions of the report follow:]

I. ISSUES IN AGRICULTURAL AND TRADE POLICIES

A. SOME PERSPECTIVES

In the Kennedy Round, U.S. negotiators sought from the beginning to include agriculture as a full partner. The U.S. chief negotiator Christian A. Herter emphasized in addressing the opening session of the Agricultural Ministers of the Kennedy Round negotiations, as well as in talks given in the United States, that it was the firm position of the U.S. Government that negotiations must include agricultural products. . . . And, further that the U.S. Government would not be prepared to conclude the negotiations until equitable tariff and trade arrangements had been developed for agricultural products. EC Commissioner Mansholt, speaking to the GATT for the Community, also stressed the importance of a successful negotiation on agriculture and committed the European Community unequivocally to a negotiation on domestic agricultural policies. The Agricultural Ministers subsequently adopted a resolution which became a part of the charter for the Kennedy Round. It stated:

> "That, in view of the importance of agriculture in world trade, the trade negotiations shall provide for acceptable conditions of access to world markets for agricultural products."

The results from 4 years of protracted negotiations, as is well known, were most disappointing. Results in agriculture fell far short of those in the industrial sector. Some minor concessions on U.S. export products were negotiated, and the U.S. gave a valuable duty binding on canned hams. In the final hours of the Kennedy Round an International Grains Arrangement (IGA) was concluded that provided for food aid by major developed countries and for world wheat prices at levels believed favorable to both exporting and importing countries (in the context of a worldwide wheat shortage). The price stabilization part of this agreement collapsed in 1969, and the International Wheat Agreement which replaced the IGA in 1970 does not contain price provisions at all (although it provides for negotiating them at some future time).

Since the conclusion of the Kennedy Round, U.S. negotiations have continued to press for liberalization of agricultural trade arrangements in bilateral negotiations with many countries, but especially the EC Countries, as well as in GATT and other multilateral forums, with many of the same frustrations and lack of results that characterized the Kennedy Round. Japan has liberalized its quotas on a number of items and U.S. sales have responded. In the EC, however, the situation has steadily worsened as internal prices on grains, and thus variable levies at the border, have risen and as more products have been placed under the restrictive CAP's.

In spite of the commitment made in early 1972 to begin preparation for a new negotiation, the EC appears most reluctant to contemplate liberalization of agricultural trade. For example, the High Level Trade Group of the OECD is now in its final stages of preparing its report on recommendations for improvements in the international economic environment in the 1970's. The group has found the agricultural trade issue among the thorniest of all issues, and it appears doubtful that they can reach any meaningful agreement. Many of the group's members apparently believe that agriculture must be put aside as a special problem that cannot be dealt with in parallel fashion to the issues of industrial products and can be dealt with only in the time span of a generation. Also, the EC is being exceedingly difficult in the GATT article XXIV: 5 examination, even to the point of claiming that the common agricultural policy must fall outside the scope of this examination.

B. DOMESTIC AGRICULTURAL POLICIES: BARRIERS TO TRADE LIBERALIZATION

Why has so little progress been made on agricultural problems in previous multilateral and bilateral trade negotiations? Part of the answer can be found in the conflict between freer trade and the domestic farm policies of all countries, part in the continued political potency of farm people and part in the extreme concern on the part of EC countries, most notably the French, to protect the common agricultural policy, which is seen as the most tangible manifestation of European regionalism.

Incomes of farmers in all industrialized countries lag behind those of non-farm groups. A prime objective of national agricultural policies is raising the level of farm incomes both in absolute and in relative terms. Policies adopted which are intended to meet this objective often conflict with the objectives of liberalization of trade in agricultural products. In the opening three paragraphs of its chapter on agriculture, the report of the Williams Commission summarized succinctly the consequences of this interrelationship of domestic agricultural and trade policies as follows: [1]

"In no sector of the economy are domestic and international policies more closely related than in agriculture. Their interdependence is almost always a consequence of government policies, especially in many industrial countries which seek to improve farm income primarily by means of price supports. These support prices are in many cases determined with too little regard to market conditions or to changes in agriculture itself; rapid technological progress, increases in labor productivity, reductions in the number of farms, and increases in the number and importance of larger, highly mechanized farms.

"High price supports have stimulated major expansions of uneconomic production in many countries. To find outlets for this expanded production, these countries have increasingly curtailed foreign access to their home markets, and have disposed of surpluses by means of export subsidization.

"Particularly adverse have been the trade effects of the Common Agricultural Policy developed by the European Community during the 1960's. The high prices fixed under this policy—supported primarily by means of variable import levies—have prevented effective price competition and forced third countries into

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[1] *United States International Economic Policy in an Interdependent World Report to the President Submitted by the Commission on International Trade and Investment Policy*, July 1971, p. 141.

the position of residual suppliers. Furthermore, the Community has used export subsidies aggressively to dispose of surpluses produced under the stimulus of its high support prices."

In Annex I of this report we have summarized the major features of the agricultural policies of the countries of Western Europe, Japan, Australia, and New Zealand, Canada and the United States—with emphasis on the policies affecting trade.[2] Attention is also given to significant changes or trends in farm policy in recent years.

High price supports, it can be readily seen from these country policy reviews, have been and continue to be the essential features of the agricultural policies in Japan and the European Community. In the EC and several other countries these price supports are guaranteed to producers without any limitations on production.

These high price supports while intended to remedy the income problem, have been largely unsuccessful for many reasons. In the first place, a small proportion of producers—the large farmers—get by far the largest benefits from price supports or other programs based on volume of production; for example, in the United States 60% of direct government payments in 1970 went to 20% of the farmers, those with gross sales over $20,000. In most countries there are many farmers with low incomes. They have a small volume of marketings and they cannot get any substantial income benefits from high price supports. These farms are too small to be efficient economic units and can survive in competition with productive farmers in their own country or abroad only by accepting very low returns for their efforts. In effect, chronic low incomes from farming stem from having too many of the "wrong" resources in farming—too many farmers and too many outmoded farm skills and methods, too many crops not in great demand by consumers on too much land—plus too few of the "right" resources in farming—not enough capital per farm, too small an acreage per farm although too much land in farming overall, and too little of the right kinds of farm skills. There is an unsatisfactory use of existing resources, and not enough of needed resources.

High price supports stimulate production that leads directly to agricultural surpluses, import barriers, and subsidized exports of high cost commodities. Farm prices for most products and in most countries cannot be substantially increased without creating excessively large commodity inventories as long as price guarantees are given without limitation.

Rising consumer incomes in most developed countries do not lead to greater total food consumption per person, only to changes in the mixture of foods consumed to more expensive, better quality foods more desired by consumers.[3] A rigid system of high price supports, however, does not provide the necessary signals to farmers through the marketplace to adjust their production decisions in the direction of changing consumer demands.

Also, it has become clear that the benefits of high price supports are capitalized into high land prices which are of future benefit only to the present owners of land. In practically all countries the increase in prices of land during recent years has been markedly greater than in agricultural incomes.[4] Thus, the benefits of high price supports accrue to present owners not as much in increased current incomes as in higher capital values—a gain which they can reap at time of sale, but it represents an added capital cost to the new buyer and a further deterrent to needed adjustments in farm policies.

Other misallocations of resources are induced indirectly through the influence of present agricultural policies. Under the assurance of high prices farmers apply larger quantities of fertilizer, herbicides and other non-farm inputs than would otherwise be used. In the case of the United States, an artificial scarcity of land is created through the supply adjustment programs. In Western Europe and Japan where grain and rice prices are supported at levels from 100 to 300 percent above world price levels, uneconomic investments of a long-term nature are the result as well as over-use of fertilizers and other production inputs on an aggregate basis. In addition to inefficiencies in use of resources these added inputs pose environmental problems.

[2] See Annex I. "Policies Affecting Agriculture and Agricultural Trade."

[3] Japan is an exception. Caloric intake is low in comparison with other countries at similar income levels. Consumption of livestock products is so low that increases in consumption of meats (given lower prices and adequate supplies) would not be fully offset by declines in consumption of other foods.

[4] Based on data available for OECD countries, the average annual rate of growth in value of farm real estate (primarily land) has been about 7 percent during 1955–60 and 9 percent during 1960–65. ("Capital and Finance in Agriculture", Volume 1, General Report, OECD, 1970, pp. 46–47.)

Not only are present policies inefficient in solving the chronic problems of low incomes for rural people, but they are costly to consumers and taxpayers in the form of higher food prices and government costs of programs. According to Professor Johnson of the University of Chicago, the annual world cost of the "combination of barriers at the border and domestic price supports and subsidies" may approach $40 billion including about $13 billion in the EC and almost $10 billion in the United States.[5] A significant part of this cost estimate for the United States is the cost of programs to remove acres from production—supply adjustment problems thrust upon the United States (the world's largest producer and exporter of grain) (a) because of restricted access to markets closed by high price supports and import barriers and (b) because other countries with few exceptions make no attempt to restrict production or control marketings.

Our conclusion on how to deal with the conflict between farm policies and expanded international trade is that a solution can be found only if domestic support policies move away from high price supports. To the extent this conflicts with farm income objectives, payments should be made which will be as nearly production neutral as possible. This will help reduce income disparities within agriculture, promote a greater flexibility in prices, and prices can assume more of their role in adjusting supply and demand. At the same time this change would permit a liberalization of trade barriers and help insure that the national costs of farm income support will be borne directly by the societies which deem them necessary rather than by the world as a whole.

A shift away from high price supports and downward adjustments in supply to meet market demand is not easy to achieve politically—in the United States as well as in other countries. Farmers are deeply suspicious of any moves to reduce prices and shift them to dependence on payments from national treasuries. A rapid decline in farm numbers is taking place generally in all countries; it alarms farmers, and their political representatives in national legislatures.

Nevertheless, farm people in all of the developed countries continue to have strong political influence.

While the number of farm voters continues to decline in the U.S., farm organizations still pack legislative power increasingly through commodity organizations which can rally support for specific issues because of a unity of goals among the membership.

The general farm organizations—the American Farm Bureau Federation, the Grange, the Farmers Union, and the National Farmers Organization—are less effective because of a diversity of member views and of viewpoints between organizations.

They are more sophisticated, they are better organized, and they have better access to power than many other special interest groups. Dairy farmers in particular are well-organized, well-financed, and politically articulate! Dairy farms in considerable numbers are still found in almost every political district.

Representative George Mahon, as another example, led the floor fight last week when the House beat back (192–189) an attempt to reduce the farm program payment limitation to $20,000 from $55,000. Working hardest behind the scenes were the National Cotton Council, the National Association of Wheat Growers, and the Grain Sorghum Producers.

There are many regional groups such as the tobacco associations, the Peanut Council, and the Rice Council that can bring pressure to bear in the interests of their members. The American National Cattlemen's Association remains a potent force.

The National Council of Farmer Cooperatives is also effective, particularly on tax policy and other things that concern a cooperative membership that ranges from small supply and purchasing co-ops to the huge Sunkist and Goldkist operations.

The farm sector in Japan is a highly organized, politically active factor. Probably the most politically active and effective organ in the argicultural area is the Central Union of Agriculural Cooperates, which has local cooperatives in virtually very rural area in Japan. Japanese agriculture can wield great political influence since, in the first place, it is overrepresented in the Diet as compared to the urban areas and, secondly, it is a large supporter of the ruling Liberal Democratic Party and undoubtedly is the greatest factor in their maintaining a majority in the Diet.

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[5] D. Gale Johnson, "Free Trade in Agricultural Products: Possible Effects on Total Output, Prices and the International Distribution of Output." Office of Agricultural Economics Research, University of Chicago, Paper No. 71 : 9, July 15, 1971.

In the EC, powerful farm organizations influence the determination of agricultural policies in the EC member states and also the positions these states take in determining Community policy on agricultural issues. One of the most effective is the 1.2 million member German *Bauernverband,* a consistent supporter of high farm prices and opponent of the German government's efforts to induce small farmers to leave agriculture. The *Assemblee Permanent des Chambres d'Agriculture* and *La Fédération Nationale des Syndicats d'Exploitants Agricoles* are the leading organizations in France, although the social and political importance of individual landowners is also very significant in determining French policy. In Italy, the *Confererazione Nazionale dei Coltivatori Diretti,* which emphasizes social welfare measures for its small-farm members, has led a decisive voice in the selection of Italian agriculture ministers since the late 1940's. The Belgian *Boerenbond* and the Dutch *Landbouwschap* also exert pressure on their respective governments. These and other organizations are members of the Committee of Professional Agricultural Organizations (COPA), which is, in effect, the farmers union of the Six.

The power of such organizations was demonstrated last December after the meeting between Presidents Pompidou and Nixon concerning monetary and trade questions. Following his return to Paris and meetings with farm organization representatives, Mr. Pompidou made several public statements supportive of the common agricultural policies and critical of the United States that were much harsher in tone than those he made in the days immediately following his meeting with Mr. Nixon.

The well-organized and well-publicized efforts of the German *Bauernverband* to stiffen the position of the German government with regard to the EC Commission's 1972–73 farm support price proposals is another example. Freiherr von Heereman, the president of the organization stated in a letter to Chancellor Brandt that the proposals were absolutely unsatisfactory for German agriculture, that monetary policy decisions must by no means lead to a burden on German agriculture, and that he was summoning German farmers to take part in a nationwide warning demonstration, which he did. Whether the *Bauernverband's* efforts moved the German government or were merely used by it to promote the government's position in Brussels, these efforts were a factor in the final settlement.

Moreover, the Europeans view the Common Agricultural Policy (CAP) as the only significant political accomplishment of the European Community. For each, it is a symbol of political unity. Some—more particularly the French—seem genuinely to believe that the United States aims to destroy the CAP.

In the case of France, the CAP is the mechanism for enormous economic benefits that accrue to the large, efficient landholders. President Pompidou in recent months has repeatedly warned that France would be unyielding in opposing American efforts to "destroy" the Common Market's agricultural pricing system. Early this year, when the U.S. and the EC were negotiating a trade agreement, Pompidou reportedly took personal jurisdiction over French policy toward the CAP. In the French view the CAP is not negotiable as a trade matter because of its political and social objectives.

C. PROSPECTS FOR CHANGE IN THE 1970'S

Are the prospects for changes in agricultural trade policies any brighter for the 1970's? In a number of respects they seem to be. There are changed situations from the 1960's which include those peculiar to the major negotiating countries as well as changes common to all.

1. *Demand for Livestock Products.*—There is widespread appreciation that present agricultural policies are not meeting the demand for livestock products which consumers want. World prices for beef, for example, have climbed markedly in 1971 and 1972, in spite of an increase in production in the 1960's of some 40 percent. Since the beginning of 1972 the European Community and the United Kingdom have removed all duties and charges on beef imports. In June 1972 the United States, too, set aside all import quota provisions for the balance of the year. In 1971 the Soviet Union, under pressure to provide more livestock products for its people, imported sizeable quantities of beef from Australia, and has been importing feedgrains to boost livestock production. This is expected to continue.

2. *The Community* at the start of the Kennedy Round was in the beginning stages of developing a Common Agricultural Policy (CAP). Now it is a full-blown "policy," although still developing and being extended to more products.

But disenchantments and disillusionments are setting in from many quarters including the EC Commission itself.[6] Many farmers are unhappy with the CAP (e.g., the March 1971 demonstrations in Brussels) because, in their view, prices and incomes are too low—80 percent of the farmers in the EC have incomes no more than two-thirds those of industrial workers. Sharp conflicts have risen among member countries over CAP policies and especially over the implementation of the principle of joint financial responsibility for CAP costs. Commissioner Mansholt has proposed a costly plan for structural reform that has aroused spirited controversy but only limited adoption thus far. An "outside" factor to agriculture, the adjustments in exchange rates within the Six, has put the common agricultural price policy under continuing and immediate internal pressures ever since 1969.

3. *EC Enlargement.*—The EC is now about to add four countries, the U.K. by far the most important. Historically, the U.K. is a large importer of farm products with a low food price policy. A deficiency-payment system has been used until recently[7] on a selective basis to raise farm returns and stimulate domestic production; the financial burden of such a system is on taxpayers rather than on consumers through higher food prices. Farm prices in all accession countries, except for Norway, are generally below EC–CAP levels, especially prices of feedstuffs. Also, those entering countries, at least the principal producers of farm products—the U.K. and Denmark—have agricultures more efficiently organized than exist in many areas of the Community. In comparison with most of the Six, these countries are larger users of feed for livestock production and less important grain producers; under the EC–CAP, prices of grain will rise relative to livestock-poduct prices.

4. Japanese food consumption patterns are changing in the direction of those of the U.S. and Western Europe. Nevertheless, Japanese consumption of livestock products is still much below that of most other developed countries; this situation plus sharply-rising consumer incomes makes for a promising market for imports in the 1970's and beyond. Important liberalization of import quotas has already occurred, although the pace has been slow.[8] The production of rice is now being cut by a new acreage diversion program in line with a policy to shift production out of rice into other crops and other livestock products.

5. The United States, policy-wise, is in a markedly changed position from the early 1960's, moving toward further market orientation. Large government stocks had accumulated under the stimulus of high price supports well above world prices in the 1950's and early sixties. To remedy the situation, payments to farmers have been made to withhold cropland voluntarily from production. Acres withheld from production have reached one-fourth to one-fifth of total cropland and payments to farmers the range of $3 to $4 billion. Price supports of major crops have been reduced sharply, moving market prices near world price levels. Total export subsidies dropped from a high of over $800 million in the early 1960's to a range of less than $100 million to $200 million in recent years. The set-aside feature of the Agricultural Act of 1970 has increased the options of the U.S. farmer to respond to market forces; once the farmer who chooses to participate in the program has taken a certain acreage out of production, there are no further restrictions on his planting decisions. In effect, the U.S. commitment to policies based on market forces has increased markedly since the early 1960's—although in the absence of other major countries taking similar action the costs of the program in government payments are proving to be costly.

6. *Consumer incomes* are much higher in all countries, with the largest rate of increase in Japan and next in the EC. Continued gains are expected in the 1970's. With these higher incomes have come shifts in food consumption patterns away from cereals to animal products. Given available supplies at "right" prices, there is great potential for further shifts.

7. *Rapid structural changes* in agriculture in all countries have brought sharp decreases in both number of farms and employment. Between 1960 and 1970 the drop in the number of persons employed in agriculture in most OECD

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[6] See Annex II, "The Uri Report" and Annex III, "Costs and Benefits of Trade Policies: European Community and Japan."

[7] The change to a minimum import price system was made for at least two reasons: (a) as a transitional move to the EC–CAP system that the U.K. must adopt on joining the Community, and (b) because of a stated policy of the Conservative Party to reduce budget outlays.

[8] An interesting example of the effects of trade liberalization is given by the Japanese liberalization of grapefruit, which has even exceeded U.S. expectations. With all import bars removed June 30, 1971, our exports for the first 10 months of FY 1972 total almost $10 million compared with less than $0.5 million in the same period a year earlier.

countries was in the range of 25 to 40 percent (44 percent in Italy). Also, the proportion of production inputs from nonfarm sources has risen sharply in most countries. Crop yields and output per worker on farms have risen accordingly.

8. *Nonfarm income is of increased importance to farmers* in most countries, but especially the United States and Japan. For example, in the U.S., the income of small farmers (those with sales of products under $10,000) in the 1960's doubled and all of this increase came from nonfarm earnings, while their numbers declined from over 3 million to less than 2 million. Thus, all of the increases in income from farm sources went to the larger farmers. In Japan the income to farm households coming from nonfarm sources increased fourfold during the 1960's. As a result, the proportion of their income from farm sources declined from 55 percent in 1960 to 40 percent in 1969.[9]

In comparison with a decade earlier, however, there are many unchanged elements. Incomes to workers in agriculture still lag behind those in nonfarm pursuits. There is still general overcapacity despite the rapid structural changes. Unfortunately, high price incentives have led to sharp increases in prices of land as well as to overinvestments in machinery, fertilizers, and other nonfarm inputs so the problems of needed disinvestment in agricultural production have been accentuated.

Most significant of all perhaps among the unchanged elements is that the political pressures against changes in present policies are still formidable. Even though the numbers of farm people in all countries have declined sharply, their influence seems little diminished. In Germany, the balance of political power is now based on a small political party that draws an important base of its support from farmers in low-income areas; Japan's ruling political party depends on rural people for a vital base of its support—and a similar story could be detailed for most industrial countries. It is possible that these farm groups are not really as politically powerful as believed, but it is the politicians' perceptions of their power that counts.

In summary, there are some definite changes in the environment that could make shifts in domestic agricultural policies more attainable in the 1970's than previously.

The only hope for fruitful negotiations on agriculture, however, is to move in a direction that would minimize "costs" of policy changes to all countries. Moving toward a general expansion in agricultural production could have benefits to all countries. Livestock products and poultry offer the greatest possibility for expansion. The U.S. experience of the last two decades, with a doubling of beef and poultry consumption per capita, is a notable example. The prospects of rising consumer incomes and a continued industrialization in Western Europe and Japan offer similar possibilities in those countries.

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III. Strategy and Tactics for Achieving Goals

A negotiating strategy

The potential gains from negotiating a policy alternative III liberalization in the grain-feed-livestock sector as set out in the earlier section make it worthwhile to try to negotiate this type of arrangement. But how do we go about it? The most sensible way seems as follows:

1. For grain-feed-livestock: We would be negotiating an agreement in which the United States support system provides the underpinning for world grain-feed-livestock trade. An alternative III negotiation assumes that the U.S. will continue to operate its support program so that the support prices for wheat and feedgrains do not fall below 1972 levels. This will be done through programs similar to those we have now, although we will be able to put increasing quantities of our set-aside acreage back into production as demand increases elsewhere in the world.

It also assumes that our import restrictions on wheat and dairy products, our import duties on wheat, oilseeds and meals, feedgrains and livestock products will be removed gradually over a period of time.

An alternative III negotiation assumes also that the same process of adjustment to a full liberalization situation will take place in the other major countries. In the case of the EC, for grain this would mean elimination over a period of time of the variable levy and concurrent reduction of the internal

[9] Michael Tracy, *Japanese Agriculture at the Crossroads*, Trade Policy Research Centre, 1972, p. 8.

support price with a possible shift to income payments. At the end of the transition period we would see a situation in which there would be standby support systems in all major countries at levels equivalent to the present U.S. support price level or slightly above (because of freight differentials) but with market prices riding at or above these levels. Export subsidies would not be permitted. To reach the goal of full liberalization we would:

(1) Establish a plan and schedule for the removal of import restrictions. Let us say for example, they would be removed over a 10-year period in 5 steps. Import duties would be reduced by 20 percent every two years. For variable levies, a ceiling would be calculated and this ceiling would be reduced by 20 percent each 2-year period. For import quotas a liberalization schedule involving increased quantities over the 5-year period before full liberalization would have to be agreed upon. Wheat boards and state trading agencies present a more difficult problem. They may have to progressively relinquish their import function allowing the international trading companies to take over this function.

(2) Agree that internal support systems will be adjusted on a similar schedule or schedule designed to allow the progressive liberalization to proceed unhindered.

(3) Agree that export subsidies will be progressively reduced.

(4) Establish a coordinating council to oversee the operation of the new system. Such a council would be absolutely necessary to keep track of changes that were taking place and to make necessary adjustments in commitments if the course and burden of adjustment did not go as anticipated. It is conceivable that the present IWA structure—the Council and Secretariat—could be the nucleus of such a coordinating council. The council could, but need not be, within the GATT framework.

What we are proposing, therefore, is a commodities agreement, but not one of the traditional kind limited to a single commodity which seeks to rig international prices at artificially high levels. The commodities agreement we foresee would cover a family of commodities. It would be a liberalizing agreement removing restrictions from trade, permitting supply and demand to have free reign within this economic family of commodities, and would allow prices to seek their own natural levels.

2. Other Commodities: We would lay down no fixed rules for negotiating other agricultural commodities. It is not possible to do so, as the situation varies greatly from product to product. For some, such as fruits and vegetables, where the principal form of international trade is the tariff or import quota, it may be sufficient to remove tariffs over a period of time, to reduce them as has been the case in previous negotiations or to liberalize or remove quotas. For others such as tobacco where support, taxation and preferential duty systems in some countries are an impediment to trade as they are in the Economic Community, it will be necessary to negotiate changes in these systems as well as changes in restrictions at the border. Rather than try to find general rules, we would suggest that countries notify the GATT of the product and the type of concession they are seeking. In a pre-negotiation examination, then the GATT contracting parties could sort through these commodities, group them according to the type of treatment necessary and the countries likely to be involved. If necessary, negotiating groups could be set up at that time.

Several other negotiating plans have been put forward from time to time. None of these seems acceptable. They are explored below:

First, a *Traditional GATT Negotiation.*—In this negotiation, countries would agree to eliminate their import duties or other restrictions at the border and enter these concessions in the GATT schedules of tariff concessions as is customary. The reductions would be staged over a period of years and the staging schedule also would be spelled out. Coordination and adjustment decisions would be left to the normal GATT Council/Working Party structure and the necessary adjustments in support systems would be enforced in accordance with the GATT interpretation to Article XVI which says that internal prices and income programs should not nullify or impair the value of tariff concessions.

The problems with this approach are:

(1) The existing GATT mechanisms for this kind of coordination are not adequate. Neither the GATT Secretariat nor the GATT Council is geared to this sort of operation.

(2) It will not be enough to rely upon the old GATT interpretation for enforcing adjustments in support programs. For a variety of reasons, this interpretation has not been much used. There is no strong practice built up around it. While understandings about the operation of support systems must allow flexi-

bility, they would necessarily have to be considerably more detailed than the present GATT interpretation is.

(3) This concept of negotiation is so far removed from the EC's idea of negotiating commodity agreements in agriculture as to be completely unacceptable to the EC.

Second, the *EC's classic Montant de Soutien* (MDS) method. As this was articulated in the Kennedy Round of negotiations it suggested that the level of support to the producer be calculated on individual products and bound against increase for a period of 3 years, at which time the situation would be reassessed and necessary changes in the support levels agreed upon. The EC stated that its price levels would be the common levels established at the end of the transition period to the Common Market. Even this rather limited binding was subject to a number of escapes including for political necessity and inflationary offsets.

Under the MDS countries would be free to use at the border whatever restrictive systems they chose just so long as the application of these border restrictions do not increase the level of support to the producer.

The EC proposed also that reference prices for international marketings be negotiated and that participating countries agree to respect these international prices by not pricing below them. There would be no bar to subsidizing exports down to reference price levels. While the EC did not specify reference levels for most commodities, it was clear they wished to see the prices of grains and oilseeds raised in international markets.

This was the classic MDS negotiating method proposed initially by the EC for all agricultural commodities. For grains, as negotiations progressed the EC added the concept of self-sufficiency ratios. That is, certain adjustments in domestic policies would be made if domestic production exceeded a certain ratio of self-sufficiency. The self-sufficiency formula, however, was not a clean one in that it involved the concept of world supply-balance. The problems with the MDS approach are:

(1) It does not anticipate the reduction or removal of border protection or the reduction of support prices. Thus, there is no real liberalization.

(2) Reference prices on a wide range of commodities would be impossible to negotiate. It is inconceivable that the many countries involved could put together a schedule of prices and differentials for the many meats, dairy products, grains, oilseeds and meals and other feeds involved.

(3) Increasing international prices by negotiation would introduce additional distortions into international trade, not remove them. It would stimulate production of commodities already in oversupply, and not do a thing to encourage demand for livestock products.

Third, the *Wittedeem Compromise.*—In the high level trade group, Mr. Wittedeem, the Dutch representative, proposed a negotiating method which was a variation of the MDS. A fundamental difference between his proposal and the MDS, however, was that he contemplated the eventual reduction of grain prices in the major producing countries to the level of the most efficient supplier. He proposed this for the same reasons we do, to make it possible to expand production of livestock products for which there is a demand. He would establish the level of price of the most efficient supplier by negotiating international reference prices. Negotiated reference prices were required he said, because in many instances international market prices today reflect elements of subsidy and thus are not true equilibrium levels. Governments would agree to reduce internal support prices by stages to the reference price levels and not to subsidize on the world market below these reference prices. Producers would get income support if this were needed through income payments.

This approach is a significant improvement over the original MDS idea. (That is why it was unacceptable to the French and Commission representatives in the high level trade group.) Its problems for us lie in the idea of negotiated reference prices. It is impossible to see how the countries involved could negotiate a set of equilibrium prices for livestock products, grains and feeds, to take effect say 10 years from now. The negotiation would be hopelessly bogged down and the very concept is alien to that of giving more play to economic forces to allocate resources in a way which will produce for the consumer those products the consumer wants. The EC is the best example of how prices can be disoriented through international negotiation. EC internal prices for grains and livestock prices have been set through negotiation among the 6 countries from the inception of the Community over 10 years ago, and the price relationships between grains and livestock products discourage the production of livestock products and encourage production of grains.

Relation to Industrial Negotiations

As our analysis shows there is an element of balance in the grain-feed-livestock negotiation for the developed countries, except Japan, even though the major trade benefit accrues to the United States. Europe will export considerably larger quantities of dairy products inasmuch as she will be efficient in dairy products, a point which she has made to us consistently for a considerable period of time. Moreover, the United States will as a part of this negotiation relinquish the grain rights which it holds in the EC and the United Kingdom. And Japan will be giving up quotas which are illegal under the GATT. Further, the rationalization of this commodities sector carries with it benefits for the consumers and the industrial structure of each party.

Finally, the moves which we will be suggesting are those toward which the countries will inevitably be pushed by force of circumstance. Japan may delay liberalizing the import of livestock products for some time to come but she cannot avoid it entirely. The EC will find itself under increasing pressure to reform its grain price structure over the coming decade. Finally, a good argument can be made that Japan owes us this kind of liberalization because her restrictions, which are inconsistent with GATT obligations, have been preventing the kinds of adjustment in the grain-feed-livestock sector which we propose, and thus have been aggravating the monetary imbalance with which we are grappling. Had Japan removed her quotas on beef some years ago, she would now be a sizable importer of beef and an even larger importer of feedgrains and she would not be running the very large surplus she now enjoys.

Nevertheless, neither Japan nor the Economic Community, we are sure, will consider the balance in this commodities sector or in agriculture as a whole reciprocal. Our agricultural exports to Western Europe amounted to $2.2 billion in calendar year 1969, for example, whereas our imports of agricultural commodities amounted to only $.9 billion. Similarly our exports to Japan amounted to $.9 billion, whereas our imports of agricultural products from them amounted only to $40 million. The agricultural commodities which Europe sends the U.S. are primarily wines, canned hams, beer and some dairy products. Apart from dairy, our restrictions are no real barrier to the products which Europe has to sell us. The import regimes of the U.S. for canned hams, and wines are already liberal. The duty on canned hams is only 3¢ per lb. There are no other restrictions.

We will be able to negotiate in agriculture only in the context of a very broad negotiation. What is needed in our view is a negotiation of sufficient scope and magnitude to warrant the overriding by presidents and heads of states of the objections of their agriculture and finance ministers and to provide members of legislatures with the rationale for overcoming the protectionist pressures of their constituencies. In our judgment, a negotiation of proper magnitude would be one involving both money and trade. We do not think that a negotiation involving trade only is adequate.

Reciprocity

In spite of the probable concerns of Europe and Japan over the possibility of the United States becoming protectionist, we do not see any sense of urgency in dealing with the U.S. trade problems. On the contrary, all the evidence from the high level trade group and the GATT article 24:5 and 6 examination efforts indicates a truly remarkable lack of interest in trade negotiations on a worldwide scale. In order to negotiate an improvement in agricultural trade of the kind which appears justified and necessary of U.S. should be prepared in the field of trade to offer the Europeans and Japan two choices: (1) an alternative III commodities agreement with appropriate additional settlements in such sensitive commodities as tobacco and citrus, along with suitable liberalization in the industrial sector, or (2) the withdrawal of the United States from the GATT and the return of its import duties to much more protective levels. On this point, in his recommendations to the Williams Commission, Secretary of Agriculture Clifford Hardin said in respect of a major trade negotiation:

> "This kind of negotiation cannot be conducted in the agricultural sector alone. Recall the trade flows in Chart I. They show the imbalance in agricultural trade. The industrial sector must be involved. But further duty reductions in industry may not give us enough bargaining power either. What

seems to be needed is a system of rewards and penalties. We might all agree on a schedule of change in agricultural support policies to implement the ideas I have mentioned above. If these changes were made on schedule, industrial duties would be reduced. If they were not made on schedule, industrial duties would increase—even beyond previously negotiated levels. If countries cannot agree to changing their agricultural systems, we should reassess whether it is in our interest to continue to be bound by the GATT. This is strong medicine, but it seems needed."

The chart to which the Secretary referred is reproduced below.

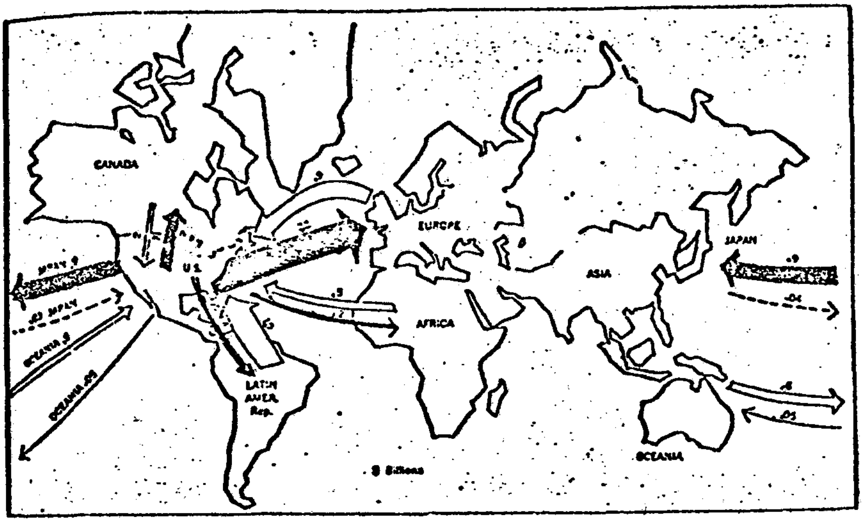

CHART 1.—Flows of U.S. agricultural trade

International Tactics to support a U.S. type of negotiations.

We have already prepared some of the ground for a negotiation of this type. In the proposals we put before the Community in the October 15 negotiations we stressed the need for reduction in the EC grain prices to world market levels in order to stimulate the consumption of livestock products in the EC.

In our negotiations with Japan we have also stressed the need for liberalizing animal product imports and the desirability of building a beef industry in Japan. Our feedlot demonstration in Korea has attracted some Japanese interest. Also, Ambassador Eberle's work with the high level trade group in Paris has stressed the need for restructuring the grain-feed-livestock sector. That this has been understood is demonstrated by the proposal of Mr. Wittedeem in the high level group and the work of the OECD agricultural staff. Moreover, in our requests to the enlarged Community for information to enable us to examine the enlarged Community's agricultural policies under Article XIV : 5, we have emphasized the need for information in the grain-feed-livestock sector. The USIA program for moving U.S. academic leaders through Europe to lecture and participate in seminars is also being used in this direction. Dr. D. Gale Johnson has stressed the need and the potential benefits of a reform in this area. That we are being heard in the EC is demonstrated by the stream of German and other EC parliamentarians through Washington telling us to reduce the pressures.

We should intensify our efforts in each of these areas and begin them in others. For example, as we have pointed out, both the EC and the UK have in recent weeks removed their import duties on beef and the U.S. has just removed all quantitative limitations on beef imports. (The U.S. duty is negligible.) Japan is the only major developed country still restricting the import of beef. All three liberalizing countries have stressed that their liberalization is temporary. It need not be. If we can convince the Japanese to liberalize beef imports, it may be possible to maintain this liberalization, with Japan becoming the escape valve in the event of a sharp build-up of supplies.

We should, therefore, seize the opportunity we have to call a meeting of a beef group, either under GATT auspices or elsewhere (we may wish to involve the Russians) to press Japan to hasten its liberalization of beef. What better time exists than when supplies are short! In this group we should seek to work out a shared liberalization plan to keep the open market we now have.

In the Article XIV: 5 examination also we could consciously and deliberately stress the adverse impact of raising U.K. prices for grains to EC levels and stress the benefit which would result to all concerned should the EC choose to lower its prices to the U.K. level. In this effort we would seek the cooperation of the other suppliers of grain and livestock, namely, Canada, Argentina, Australia, New Zealand, and South Africa.

At the same time in the GATT Agriculture Committee, particularly in light of the beef situation, we could call for an intensive examination during the next few months, of the kind of commodities agreement we have in mind. We could also in the OECD call for an immediate examination of the impact this proposal would have on the agricultural economies of the several nations involved. This OECD examination would not duplicate that of the GATT but would be concentrated on the more specific aspects of adjustments in support policies and shifts between commodities.

We would also give notice of our intention to enter into negotiations with the EC and U.K. on the grain rights which are now in suspense. The negotiations, however, would for the time being be a pro forma matter because we would inform the U.K. and the EC that we wish to suspend equivalent concessions on the part of the United States which would be restored upon the conclusion of an adequate grain-feed-livestock agreement.

Domestic Tactics to support a U.S. type of negotiation.

(1) The report and our proposal should be placed before a group of eminent agriculturalists for review, discussion and recommendation. This review would be confidential. Some of the people we might want to call in are Gale Johnson, Dale Hathaway, Vernon Sorrenson, Hendrick Houthakker and Lawrence Krause (July-September?).

(2) If it stands this test, the report should then be considered in a restricted interagency CIEP review (October-December), and additional supporting studies should be begun.

(3) At the turn of the year we could convene an Advisory Committee of farm and commodity groups to review and comment upon the proposal. Alternatively, we could publish the proposal and call for public hearings either by the Department or by the Trade Information Committee. This move should be considered at the time we decide how to handle other parts of our liberalization program.

(4) We should not approach the Congress until after the negotiation has been concluded. In deciding when to approach the Congress we have three options: 1) to seek legislation before beginning negotiations as we have in the past, 2) to seek a general authorization by the Congress which will specify that the results of the negotiation must be authorized by Congress before being implemented by the President, and then to negotiate, and 3) to negotiate and then to seek implementation by the treaty route (or by legislation).

It has been traditional under the trade agreements program to seek legislation before beginning negotiations and to implement the results by Executive order. This procedure has been the strength of the program. The Tariff Commission has pointed out that prior to 1934, a number of trade agreements requiring Congressional action were negotiated by the President, "but most of these failed to receive the necessary legislative approval and thus never came into effect." The most recent example of the kind of problem we run into when we don't follow this procedure is the American Selling Price (ASP) Agreement in which the Executive Branch negotiated away ASP, as a part of a chemicals tariff agreement, only to have the Congress refuse to implement it. Other countries, and particularly the Europeans, have made clear that they will take us seriously only when we have obtained legislation which will allow us to implement the results of negotiation without returning to Congress.

Going to the Congress, in advance, however, would require spelling out the kind of authority we need to complete the negotiation. This is reasonably easy when all that is proposed is reduction or elimination of import duties, but when changes in support systems become involved, matters become more complicated. Several committees of Congress are involved. Lengthy hearings may be contemplated at which each interested pressure group will seek to protect its interest by writing exceptions into the legislation involved or by creating legislative history. It is most unlikely that we will know enough about what can be negotiated at that time to satisfy the Congress or the groups involved that their interests will be protected. Legislation could thus attract crippling amendments on points which may subsequently become critical. Also, we may find ourselves battling strongly on, and paying dearly for, points which may drop by the wayside in negotiations. Moreover, in the negotiations, matters may take a direction unforeseen when legislation is sought, and for which no authority has been gotten. The remedy for this, of course, is to get authority from the Congress for the broadest possible changes, but it is inconceivable that the agricultural committees of the Congress would give this kind of authority, and it is quite possible that it would be unconstitutional for them to do so. On the other hand, it is possible that some of the changes in program, or policy, which we might wish to make could be made without recourse to the Congress.

In this connection, new farm legislation will be up for consideration in 1973. We could seek in our new farm program to move further toward the kind of system we wish to see in the world and to build into the new program as much flexibility as possible to adapt to a negotiated situation without further recourse to the Congress.

For agriculture, therefore, from these standpoints it appears to make more sense to negotiate before we approach the Congress.

IV. Summary of Conclusions and Recommendations

A. Conclusions

1. Liberalization of one sector of agricultural trade would result in substantial export gains for the United States. This is the grain-feed-livestock sector. Although there would also be export grains in certain other commodities, they would be minor compared to those obtainable from freer world market conditions for grains and livestock.

2. The U.S. balance of trade position in agriculture might be improved so that ten years from the beginning of fullscale movement toward liberalization in the grain-feed-livestock sector it would be around $8 billion better annually than would otherwise be the case.

3. Other benefits to the United States from this full liberalization in the grain-feed-livestock sector would include an improvement of at least $4 billion in net farm income and a reduction of $3.8 billion in government support costs for wheat and feedgrains.

4. Compared to the potential balance of trade benefits in the grain-feed-livestock sector, the trade gains possible from liberalization of markets for other individual commodities such as tobacco and citrus seem small. But these gains, which could amount to around $200 million for each commodity, are significant from the standpoint of the commodity sectors involved, and could have important economic benefits for certain regions of the country and political benefits for trade legislation.

5. Full liberalization in the grain-feed-livestock sector would provide benefits to other countries as well as to the United States. Argentina, Australia, and New Zealand would obtain balance of trade benefits, while consumers in the major importing countries—Western Europe and Japan—would benefit both from lower food prices and from increased availability of animal products.

6. For all countries concerned, partial liberalization in the grain-feed-livestock sector would provide much more modest benefits than full liberalization, although it would probably be equally difficult to negotiate.

7. The difficulties which stand in the way of achieving full liberalization in the grain-feed-livestock are great because influential farm groups in all countries of the world are deeply suspicious of any moves to reduce price supports, or otherwise threaten the level and stability of hteir income expectations, and because the CAP is politically senitive in the EC.

B. Recommendations

1. The potential benefits from liberalization of agricultural trade are so great that agriculture definitely warrants inclusion in any future round of multilateral trade negotiations.

2. Such negotiations should be broadly-based, involving both agricultural and industrial trade and monetary reform.

3. In agricultural, the negotiations should concentrate on the grain-feed-livestock sector, in which we would seek to eliminate barriers to international trade in the entire sector through negotiating a commodities agreement.

4. Product-by-product negotiations for other politically or economically sensitive commodities should be entered into for the purpose of obtaining whatever specific concessions would be meaningful for the commodities involved.

5. We should make clear to our trading partners right from the start that we are seriously prepared to withdraw from GATT and return our import duties to much more protective levels if we cannot arrive at a satisfactory trade and monetary settlement, including liberalization of the grain-feed-livestock sector along with appropriate additional settlements for other agricultural commodities.

Mr. ULLMAN. You referred to the Meat Import Control Act. Has it been in effect this year? Has it had any impact on the domestic meat price situation this year?

Mr. MARBLE. Well, Mr. Chairman, included within the Meat Import Control Act is the provision which vests with the President the authority to lift the imposition of the provisions of that act, I think under circumstances of national well-being or welfare, or some such wording under that clause the administration has set aside meat import restrictions under that act in 1972, and again in 1973. So, I would have to answer that the act at the moment is inoperative. In effect the act really does not have any impact on today's market.

Mr. ULLMAN. It then has had no impact and certainly is not any part of the cause of the rise in meat prices in the last two years, because it has not been in effect.

Mr. MARBLE. No.

Mr. ULLMAN. We have had unlimited importation of beef during the past 2 years, haven't we?

Mr. MARBLE. Yes, that is correct, Mr. Chairman. I would say this though. I think your point is well taken. As I understand it, and I think it is important for the committee to understand, that there has been absolutely no restriction on the importation of fresh frozen, chilled beef into this country this year or last. I emphasize that our industry feels that this act has been very contributory and important to our industry in the past in that when it has been applied, or in effect during past years of rather depressed conditions in our industry, it has had the beneficial effect of causing exporters of beef to this country to diversify their markets more than otherwise would have been the case.

They have not been permitted to use the U.S. market as simply a dumping ground for their products. It has developed as an aspect of what I would call market sharing as compared to earlier years. But, you are absolutely correct that it is not in effect now.

Mr. ULLMAN. As one of its principal authors, it is my feeling that the fact that it has been set aside during these two years is a clear indication of the success of the act itself. This was what was intended. When there was any indication of shortage of beef in this country, it was not supposed to work, and it has not. It has not been in effect. That doesn't mean that the situation won't change, and I think that it is very important because it has been successful that we keep it on the books.

Are there further questions?

Mr. Collier.

Mr. COLLIER. I have one question.

In your printed statement, Mr. Marble, there is one sentence that I would like some clarification on. You point out that the per capita supply of beef has increased in this country from 50 pounds per person to 100 pounds in 20 years. Then the statement says, "In Western Europe during this same period, consumption of beef in Japan has risen from perhaps two pounds to eight pounds per year . . ."

Mr. MARBLE. There is obviously a typographical error.

Mr. COLLIER. What I am trying to find out is do you have the figures on the consumption of beef during the same period in Western Europe?

Mr. MARBLE. What page are you reading from?

Mr. COLLIER. I am on page 5, the semi-final paragraph.

Mr. MARBLE. That is regrettable that there is a typographical error.

Mr. COLLIER. I was just curious to know how Western Europe's consumption compared with Japan's.

Mr. MARBLE. As to the figures for the Common Market countries, of course there is quite a little variation within the EEC countries, but generally speaking 20 years ago they were eating in the 20 pounds per capita area, and today they are up in the 40 to 50 pounds range.

Mr. COLLIER. So that they are still well below 50 percent of what the consumption is here?

Mr. MARBLE. Yes. They are about where we were 30 years ago.

Mr. COLLIER. All right.

Thank you, sir.

Mr. BURKE [presiding]. Mrs. Griffiths will inquire.

Mrs. GRIFFITHS. I want to ask you what percentage of cattle does India have?

Mr. MARBLE. Mrs. Griffiths, I don't know.

Mrs. GRIFFITHS. The reason I am asking you is that you point out on page 6 that we have 10 percent of the world's cattle and supply 30 percent of the beef. I would assume that one of the real reasons for that is because India must have a whale of a lot of the cattle, but they don't make it up into beef. I think that is one of the reasons as well as the fact that we may be efficient. I would assume the India cattle must have something to do with it.

Mr. MARBLE. I think that India may very well have 100 million head of cattle, but I just don't know for sure.

Mrs. GRIFFITHS. I think they do too.

Mr. MARBLE. There is no doubt that their lack of consumption of beef distorts that figure a little bit. But, I think, on the other hand, it is well to recognize that there is no nation in the world that begins to even touch the American beef producer in terms of his efficiency, or the meat industry generally.

Mrs. GRIFFITHS. I am sure that is correct.

I would also like to ask you how prevalent is hoof and mouth disease in Mexico.

Mr. MARBLE. It is not prevalent in Mexico, Mrs. Griffiths.

Mrs. GRIFFITHS. How about Uruguay?

Mr. MARBLE. It is very prevalent in the South American countries.

Mrs. GRIFFITHS. I was in Uruguay and they told me they had not had a case of hoof and mouth disease in Uruguay for years.

Mr. MARBLE. Bear in mind that I am not an expert in these areas, but my understanding is that every South American country has an exposure to hoof and mouth disease. I am certain that that is the case.

Mrs. GRIFFITHS. Since we spend money everyplace doing everything else, why don't we stop it?

Mr. MARBLE. We have spent money. Again, I can't tell you how much, but there has been a great effort to discover a vaccine or cure for the elimination of hoof and mouth diseases, but it has not been found as yet.

Mrs. GRIFFITHS. Thank you very much. I enjoyed your testimony.

Mr. MARBLE. Thank you.

Mr. BURKE. Mr. Brotzman is recognized.

Mr. BROTZMAN. I just have one question relative to your position, which you summed up I think quite well on page 11, and I believe I do understand your recommended amendments. The one question I wanted you to elaborate on is this: where you state "It is a matter of importance to us that agricultural exports and beef in particular be guaranteed rights to foreign entry without regard to the import-export circumstance of or the trade balance of other U.S. products." And then you recite, "This should be recognized in the act."

Would you care to tell us what you have in mind in regard to that statement?

Mr. MARBLE. Well, I don't have any specific language or wording in mind in terms of a specific amendment to the act to provide for that. The thought behind that statement is that we have felt too often that in the negotiations in the past that agriculture and beef in particular has been subject to trading around for the advantage of industrial products. I think our industry is at the point where we feel we can make a great contribution in international markets. Pursuant to the remarks that were made by the gentleman who preceded me, we need to deal with these situations more or less on a commodity by commodity or sector basis, so that all beef producing and consuming nations, for example, would be required to accept more or less the same standards of trade.

We are certainly a long way away from that principle. We pretty much have an open door to the importation of beef into this country while other nations restrict our exporting U.S. beef to them. Of course, beef in this country is not subsidized. That is not the case in Japan which offers a tremendous opportunity for us, or in the Common Market countries, both of which subsidize, protect, and operate generally on a highly protectionist basis.

Mr. BROTZMAN. Your statement then is in reaction to what you feel was treatment that you received under the Kennedy round, is that correct?

Mr. MARBLE. Yes.

Mr. BROTZMAN. And you don't want to have agricultural products and beef products particularly traded off?

Mr. MARBLE. That is correct.

Mr. BROTZMAN. That is the idea.

Mr. MARBLE. I am not sure that this suggestion of having a commodity advisory committee is the ultimate answer, but certainly in the Kennedy round, and in almost every circumstance as we view it involving trade, those who were negotiating for us seemed to disregard or forget the realities of the domestic production circumstance. I think that the suggestion that I have made would tend to assure that any given administration would have to counsel more closely with the producers that are affected than has heretofore been the case.

On the other hand, I think that many of us feel that in order to break down some of these restrictive barriers to trade, at least within the beef sector, our Government does need a little bit more negotiating flexibility.

Mr. BROTZMAN. Would you envision a statutorily created representative group of producers from your advisory board, or is the Secretary of Agriculture going to appoint them, or have you thought that far?

Mr. MARBLE. Well, I thought far enough along this line to attempt to investigate what advisory boards are currently serving the Secretary of Agriculture. I am informed from the Department that the advisory committee structure is currently under restudy, so that at least it was impossible, or difficult for me to determine at the moment whether there is an existing committee advisory to the Secretary which could function in this area in addition to their already existing advisory duties. I am inclined to think that this is the way I would recommend that it be handled—that this function be conducted through some existing committee rather than setting up a new structure, and mindful particularly that these matters of trade negotiations are not daily occurrences. I share the concern of the Congress that there are already enough advisory committees.

Mr. BROTZMAN. OK. Thank you very much.

Mr. BURKE. Mr. Vanik will inquire.

Mr. VANIK. Mr. Chairman.

I would like to ask you, Mr. Marble, what is the total beef need in the country, based on present consumption?

Mr. MARBLE. Yes.

Mr. VANIK. What is the total beef need in America based on present consumption? How much beef do we need according to our present rate of consumption.

Mr. MARBLE. Well, that is a very difficult question to answer because——

Mr. VANIK. I should think that would be one of the things that the Cattlemen's Association would have profoundly in your minds because you ought to know what the total needs of the country are. You are producing for America and ought to know what the market needs are.

Mr. MARBLE. Mr. Vanik, the reason there is difficulty in answering is that I think the needs are almost unlimited, to the extent that we can educate and encourage people to eat beef.

The beef consumption has been going up at the rate of about two pounds per capita for many, many years.

Mr. VANIK. What is it today?

Mr. MARBLE. It is around 116 pounds per capita.

Mr. VANIK. What does it come to in the aggregate? I multiply 116 pounds by the people in America. Is that the way you propose that I should do it? Don't you have the figure? What is the aggregate figure?

Mr. MARBLE. Are you asking me?

Mr. VANIK. Let's do it your way. You say the American needs are 116 pounds per capita. How much are you producing today?

Mr. MARBLE. 116 pounds per capita.

Mr. VANIK. So that you are just producing American needs, aren't you? There is no excuse then for export, really. If we think about fitting needs to production, you are just producing our needs, so that you are making us dependent on foreign imports, aren't you?

Mr. MARBLE. Mr. Vanik——

Mr. VANIK. You are telling me that you balance production to the need precisely on the barrelhead, 116 pounds per person, is that right?

Mr. MARBLE. No. I think you misunderstood me.

Mr. VANIK. What is the correct figure?

Mr. MARBLE. I am apparently not making myself clear. In about 1950 we were eating per capita about 55 pounds.

Mr. VANIK. I know the history. Just tell me what we need today, and how close are we to meeting our needs. What are you producing today to take care of today's market needs in the United States?

Mr. MARBLE. I think we are producing everything today that the market will pay for. I think the projections of our industry—may I complete the statement, Mr. Vanik?

Mr. VANIK. Yes, of course.

Mr. MARBLE. I think our industry generally concedes, or plans, or thinks at this point that by 1980 we will probably be producing 130 pounds per capita of beef at the current growth rate of our industry. In certain of our States, such as California, we already consume 140 pounds per capita.

Mr. VANIK. Well, I have some figures here of beef, veal, U.S. production. Production for 1972 is apparently 22,638 million pounds, and apparent consumption is 22,895 million pounds. So that what you say is substantially true in that what you're producing is just equal to need. Is that a fair statement? I get this out of an official Tariff Commission document. So that the production in America is only about 200 million pounds above need.

What I am trying to get to, Mr. Marble, is that apparently the industry is not producing to take care of any export business, and that if any export business comes it comes at the expense of American needs, is that right?

Mr. MARBLE. I think not. That is not my judgment at all.

Mr. VANIK. These are the figures. I was just wondering what the projection was for 1973. I would like to give you the opportunity, if you like, to place in the record your estimate of 1973 production, and your estimate of American 1973 needs, so that we can make a comparison and see what effect exports of beef are going to have on the American consumer and the prices that he has to pay.

Mr. MARBLE. Could I say this rather simply: That there is very little doubt in my mind that if foreign markets are opened up to the American beef producer, and he as a result attempts to produce for those markets, and as a consequence the beef inventory in this country is greatly expanded, that the American consumer will have the first opportunity for those increased supplies.

Mr. VANIK. Providing he is willing to pay the competitive price for the world demand, of course.

Mr. MARBLE. That is right.

Mr. VANIK. Well, of the 116 pounds that you say we consume, about 10 pounds has to come from foreigners, is that correct? That comes from imports?

Mr. MARBLE. That is correct.

Mr. VANIK. So that we are actually under-producing beef in the United States today relative to our needs by at least 10 percent. We have to rely on foreign imports.

Mr. MARBLE. Well——

Mr. VANIK. We are not self-sufficient in beef today, so that maybe we ought to create a national program to create some incentives to bring up beef production for Americans, rather than for export, because we have to think about ourselves first.

When we sell this trade bill to our people we have to point out what effect it has on them and their pocketbooks as consumers. If this bill is going to cost them higher prices permanently for the meat they need, they ought to know about it. They ought to know exactly what effect it is going to have.

Mr. MARBLE. That, Mr. Vanik, is your judgment, not mine.

Mr. VANIK. If I am in error about the facts, please correct me.

Mr. MARBLE. I believe that as I say, the general industry's and the Department of Agriculture's judgment is that the current rate of inventory build-up in the beef herd of the United States will produce, and has been producing an annual increase of a couple of pounds a year, that by the 1980's will be producing 130 pounds or more per capita.

Mr. VANIK. I may not be here in the 1980's. I am talking about the present. I want to be sure of adequacy of supplies both now and then. We are accustomed to an economy of sufficiency in the United States. Our people are accustomed to it. I think they have earned it. They have paid taxes that have helped develop water so that cattle can be fed. They have developed feed grain programs that have made feed grain available for animals. You have no direct subsidy for beef, but you live on all the other subsidies, and the taxpayers of the United States pay extreme quantities of their tax money to develop agricultural research, including the beef research that has made your industry so productive.

We have a stake in that. We have a right, a first priority at decent prices for production, and I don't know why we should encourage policies which are going to deprive us and deplete our own beef supplies. I think that you think that temporarily you have a great game, but your best market, and I think you realize it, is to sell the beef in the United States. You have some short-term markets that may be lush and glowing, but your constant market is the market in this country.

In my home we are decreasing beef use very substantially. We are almost living within the same meat budget today that we did the year before. We are just learning to live with less. If this becomes an American phenomenon, you may find that your habit patterns in America may change, and we may change from beefeaters to some other kind of people. You could lose permanently this tremendous market that you have built up because of a temporary boom in high prices that have discouraged the American consumer, and perhaps changed permanently his eating habits.

I will have to resume questioning when I get back, Mr. Chairman.

Mr. BURKE. Mr. Clancy will inquire.

You are recognized.

Mr. CLANCY. Mr. Marble, do you have any figures with you today which would indicate just how much beef we are importing, and how much we are exporting each year?

Mr. MARBLE. I don't have the figures in front of me, Mr. Clancy. We import something less than 10 percent of our total needs. This would be under 2 billion pounds. We export less than 1 percent of our total production mainly because we just don't have access to markets.

Mr. CLANCY. We have 100 million cattle on our farms and ranches throughout the country?

Mr. MARBLE. Over 100 million.

Mr. CLANCY. 100 million, and you say just about 1 percent of the beef products will be exported?

Mr. MARBLE. I believe it is less than one percent. It is largely in the nature of tallow hides, and other byproducts. We have roughly I think a trade of about $70 million in variety meats. These are hearts and tongues and parts of the beef animal that American consumers don't eat readily. We export about $50 million in primal cuts, but it is a very small thing in relation to total beef produced in the United States.

Mr. CLANCY. Of this 10 percent that we import, isn't it true that most of that beef is used in processing?

Mr. MARBLE. Yes, that is my understanding.

Mr. CLANCY. What is our principal source, as far as imports are concerned?

Mr. MARBLE. Australia.

Mr. CLANCY. And New Zealand.

Mr. MARBLE. Followed by New Zealand.

Mr. CLANCY. How about the South American countries?

Mr. MARBLE. They are prevented from in-shipping fresh beef on account of hoof and mouth disease. Fresh, frozen and chilled products are mainly imported from Australia and New Zealand and several other countries.

Mr. CLANCY. All right.

What is the position of your organization in regard to the imports of meats for processing.

Mr. MARBLE. Our position really is best stated in the support of the provisions of the Meat Import Act of 1964 which basically provides that exporters of beef to this country may at all times share a specific percentage of our domestic market, which is about 7 percent.

Mr. CLANCY. Would you be inclined to have that percentage increased at this particular time?

Mr. MARBLE. No.

Mr. CLANCY. Could you tell us why.

Mr. MARBLE. Because I think that all beef producing and consuming nations should adhere to the same market sharing principle that we have incorporated in our Trade Act with regard to beef before we make any changes.

Mr. CLANCY. If their markets were readily available to us then you wouldn't have any objection to increasing the percentage of imports?

Mr. MARBLE. Absolutely. I might say as a little expansion on this that I do think there is good reason to believe that we are relatively a little bit short on hamburger type meat, let's say, which the Australians and New Zealanders are very long on. I think by the same token that there is a lot of reason to believe that the rest of the world is becoming somewhat short of fed beef, which we have a fantastic ability to grow. I think in the long run that the direction we should point in is a greater opportunity, a greater market access, for the type of beef that we potentially can produce the most efficiently and exchange that for broadening opportunities for imports into this country of lower quality beef.

Mr. CLANCY. All right.

I have just one final question. What effect has weather had on the raising of cattle in the last year or two?

Mr. MARBLE. In this country?

Mr. CLANCY. In this country.

Mr. MARBLE. I haven't seen any statistical evaluation of this, but it certainly has had a severe impact in 1973, beginning in December of 1972. I have heard people suggest that the reduction in production might be the equivalent of 1 million head of cattle. Certainly there were known death losses, unusual death losses of several hundreds of thousands of cattle, and there were many cattle in the heavy rain and storm areas that didn't gain in the feed lots this winter. So that whether it is the equivalent of a million head lost, more or less, I really don't know, and I haven't seen any statistical appraisal of this.

Mr. CLANCY. Did you experience any loss in your region?

Mr. MARBLE. Not in the State of Nevada, nor in Idaho. But in the States of Utah, Colorado, Montana, and, of course, the Midwest, there were unusually heavy losses. The Panhandle area had some extreme losses early in the winter wheat country as did Oklahoma earlier in the year in December of 1972.

It has been a cumulative thing. It has been a tough winter.

Mr. BURKE. Mr. Gibbons is recognized.

Mr. GIBBONS. First, Mr. Marble, let me applaud the cattle industry for not seeking any subsidies. I think that is fine. As I understand, this is a philosophical position of your industry not to come to the Government asking for any artificial subsidies, is that right?

Mr. MARBLE. That is correct.

Mr. GIBBONS Perhaps I ought to know the answer to this. I guess if we make any subsidies available, you don't mind taking them, do you?

Mr. MARBLE. Pardon me?

Mr. GIBBONS. If we make any subsidies available you don't have any moral compunction against taking the subsidies we offer?

Mr. MARBLE. I don't know about the moral aspect of it, but my industry would resist it with every effort it could muster.

Mr. GIBBONS. How successfully have you resisted DISC, Domestic International Sales Corporation?

Mr. MARBLE. I am afraid I am not familiar with it.

Mr. GIBBONS. You mean none of the cattle exporters or beef exporters use DISC as a subsidy to furthering their exporting operations?

Mr. MARBLE. Well, I am just not familiar with the subject area that you are questioning me about, Mr. Gibbons.

Mr. GIBBONS. Well, I apologize for that. If you are not familiar with this, I apologize.

The Domestic International Sales Corporation is a new tax loophole that is available to just about everybody that wants to export, whether it be a new export or an old export, and I was trying to find out whether there were any cattle people taking advantage of DISC. I realize that cattle exports are very small, and that beef exports are very small. I just wondered whether your resistance to subsidies would go so far as to make all the cattlemen turn down DISC benefits.

Since you are not familiar with DISC I will drop that line of questioning right here.

Mr. MARBLE. If I might, Mr. Chairman, I would like to respond a little bit to that question.

Mr. GIBBONS. Surely.

Mr. MARBLE. I think the attitude of the cattle toward subsidies is just the practical one that there has never been any evidence in this country, or any other country, that agricultural products could be promoted as efficiently and in as great quantity under a system of Government control as under a system of largely free enterprise.

Certainly in this country the story of the production of the meat industry supports that general conclusion. There is no country in the world which totally has available to it as much protein at less cost than American consumers. I realize that perhaps that is not really germane to the Trade Reform Act, but I think that there is just no doubt in my mind that, as I commented to Mr. Vanik, if we had the opportunities to produce for the Japanese markets, let's say, where they are emerging as one of the strongest economies in the world, and have 100 million people only eating 8 pounds of beef per capita, we could utilize some of the great and tremendous agricultural resources of our country. Some of the, say, 50 million acres in soil bank, and much of the other livestock land in this country that is not producing to full capacity could be used to produce for foreign markets as well as our own. I have little doubt that the American consumer would eventually be as great a beneficiary, if not greater, than other consumers around the world.

Mr. GIBBONS. I agree with you. I think that we ought to use all that capacity. I think it is sinful not to use the capacity that we have, that God has given us, to help alleviate the hunger of the rest of the human beings on this earth.

I don't encourage you to seek subsidies. I think it is a mistake to do so.

I think it is the role of Government in these areas to be as neutral as possible and let the demands of the marketplace set the supply.

I am glad we agree.

That is all, Mr. Chairman.

Mr. BURKE. Mr. Waggonner is recognized.

Mr. WAGGONNER. Thank you, Mr. Chairman.

Mr. Marble, you list on a sort of summary statement at the outset of your statement, at point four, "American agriculture has the capacity to increase and sell at least $3 billion worth of beef in international trade if provided with the necessary and deserved free market incentives."

Are you saying what you said in more detail in your statement, that we would be willing to involve reciprocity to the extent for example that they got 10 percent of our market if we got 10 percent of their market? Is that what you are talking about?

Mr. MARBLE. Yes. I am saying if we had the same opportunities, access to the Japanese markets or the EEC, that Australia or New

Zealand has to our markets—that we surely have the capacity to produce that amount.

Mr. WAGGONNER. I was interested in what the real meaning of the word "deserved" was as you used it there. That is, what you mean. Let me ask you this. You are in the cattle business. If we had a circumstance where, because of exports, feed grains to feed this 100 million plus head of cattle in this country came in short supply in this country, should we try to do anything to keep those feed grains at home to feed our own cattle?

Mr. MARBLE. Well, I think it is pretty obvious from what I have already said that my orientation, and I think that of most of my colleagues in the ranch and farm production of beef, is pretty much free market oriented. So, I think that my industry would take the position that we ought to let the marketplace decide those questions.

Mr. WAGGONNER. Let the market decide whether it was sold domestically here at home or exported overseas?

Mr. MARBLE. Right.

Mr. WAGGONNER. I want you to think a long time about that, Mr. Marble, because I have a very definite opinion about the thinking in this country, and I am not speaking for the committee, but telling you what I interpret the people in this country to be thinking.

I spoke to you about feed grains; but had you not ansawered the question in the manner you did, I would have asked you how you felt about exporting beef if it was in short supply in the country. I think that this country is moving in the direction of saying, "Keep at home items which are in short supply in this country."

And in the regulated society that we move a little bit more toward, I think you are going to have to face that question because there is a demand. There is a demand for it.

It doesn't just exist with regard to beef. The home builders have been in town saying, "People have to do something to stop the export of logs and lumber overseas because it is in short supply here. We can't get the products here; and when we can get it, the costs are too high.

These are just the forces that are at play. So I realize that this issue has two sides, and don't get so far out on a limb that you wind up with something worse.

Thank you, Mr. Chairman.

Mr. BURKE. Mr. Karth is recognized.

Mr. KARTH. Thank you very much, Mr. Chairman.

Mr. Chairman, I was unable to be here at the beginning of the meeting this morning due to some very able and distinguished constituents who found it necessary to come and visit with me, and therefore I am going to ask to do now what I should have asked to do at the start of the meeting.

As you probably know, the Cargill Corp. from Minnesota was to testify, I think, as the second or third witness this morning, and at the time that they agreed to the date and time, they were unaware of the fact that a board meeting would be called, and as a result of that the executives who were to testify before this committee found it necessary to cancel out and attend their own board meeting.

So, Mr. Chairman, I am going to ask unanimous consent that the testimony that they were to give this morning appear in the record the same as if they had given it and that in executive session it gets the same attention as it would had they given it orally.[1]

Mr. BURKE. Without objection, it is so ordered.

Mr. KARTH. Thank you, Mr. Chairman.

I have only one or two questions, Mr. Chairman.

Pursuing the colloquy you had with Mr. Waggoner about the Cattlemen's Association and those of you who are in that business becoming free market oriented, I suppose the logical question to ask is, "why."

Is it because the Association and those who are involved in the business see greater profits by virtue of becoming free market oriented, or what is the motivation that causes you to take that position?

Mr. MARBLE. I am sure that the profit motive or the profit circumstance seems to us greater when under a free market. Basically that would be our motivation.

As a supplement to that comment, we can't see worth particularly in the area of production that has been controlled either in this country or any other country. The fact that the livestock and meat industry in this country has done such a fantastic job of production at less price than any place else in the world would certainly verify the contention that not only is it good for the producers, but it is pretty good for the consumers too.

Some of the comments, particularly Mr. Vanik's, really disturb me a little bit as a range cattle producer way out in the country because it seems to reflect a lack of awareness as to how great the productive contribution has been and continues to be in this country on the part of the free market sector of agriculture.

I guess what it says to me is that we had better get on our horses and do a little bit more work in terms of telling the supply and price story so that the consumers and the Congress, itself, perhaps might better appreciate what is going on out in the country.

Mr. KARTH. Let me just say this, I think that a vast majority of this committee agrees that the agricultural community has, in fact, done an outstanding job, probably more so than any other segment of our society.

That does not mean to say, however, that if and when those agricultural products become in short supply that we ought to embark upon a program that would mean that greater portions of that even short supply is going to be exported for use abroad which might have the effect of increasing the domestic price to the domestic consumer.

Hopefully we can strike some kind of a balance there so that the cattle producers and the agricultural producers of this country get their fair return, and I think you are entitled to it. I think you have earned it.

On the other hand, we have to make sure that the American consumer who in large part, as Mr. Vanik has said, has paid some of the price of this tremendous technological advancement that has taken place in agriculture, is not taxed doubly, so to speak.

I have just one other question, Mr. Chairman.

Argentina has been a great beef-producing country, and I understand that recently the government was attempting to embark upon

[1] The statement submitted by the Cargill Corp. appears starting on p. 2616.

a large export program for that product until the people found out about it.

Then because, I guess, the Argentinian eats greater amounts of beef than do American consumers, and found out that it would raise the domestic price, they in consonance rose up in arms and the government has had to retrench now in that particular matter.

Are you aware of that?

Mr. MARBLE. Yes.

Mr. KARTH. That I liken to what is happening in this country.

I only call it to your attention because apparently this nationalistic instinct and this consumer interest is not only developing here in America, probably developing here in America a little late, but it is pretty much worldwide, and you are just going to have to face that as one of the consequences, I guess.

Mr. MARBLE. Let me say this: It is true that consumers throughout the world are demonstrating increased interest in beef supplies and the price of beef, but of course that suggests, I think, to people in our industry that we have a tremendous opportunity to utilize what we believe are still untapped resources in this country to not only produce for our domestic market, which cattlemen have been consistently doing, as I mentioned before, at the annual rate of a couple of pounds' increase for the last 20 or 30 years. Just regularly we have been going up and up with our production.

We do have a little bit of difference with the rest of the world in that our availability of meat and food is great that we have a broader diversity of product which we offer to the American consumer.

Most countries of the world either eat beef, if they are eating any protein at all, or they may just be eating pork.

We in the United States offer pork, lamb, beef, as well as chicken and fish—the whole mix.

So, if you take that total animal protein source and add it together, there is no consumer in the world that eats as much in total quantity at more reasonable prices than our own.

When we narrow this apparent difference of approach down a little bit as between what I have said and the reaction of some of the committee members, I suppose that the nub of the thing is that some people suspect that we have less potentiality for increases in agricultural production in this country than I personally believe and the industry that I am in believes.

There is just no doubt in my mind that, given the proper economic incentives and opportunity, we could double production.

Mr. KARTH. I certainly agree. I think that there is room for expansion.

I disagree that there is as much room for as much expansion as some of you people like to believe.

I think that most of the good productive land in this country is already producing. It is the second- and third- and fourth-rate land that is out of production, and certainly it is not going to produce what the best land in this nation today produces.

I think we have over-sold the idea that the exportation of American agricultural products is the panacea to our trade balance and payments balance problems. I really don't see it as being quite that great a panacea, frankly.

Certainly I agree with Mr. Gibbons about that land that it is not in production as long as there are hungry people both here and abroad.

First I agree that we ought to take care of our own. I think we ought to expand that production in every area that we can.

Thank you very much for your comemnts.

Mr. MARBLE. Thank you.

Mr. BURKE. Mr. Collier is recognized.

Mr. COLLIER. At the risk of imposing on the committee, during the colloquy with Mr. Vanik I was doing some simple arithmetic here that could be directed to the observation you made with regard to expanding beef consumption.

We both recognize that distribution and consumption is not necessarily reflected in aggregate statistics. I think it can be significant to take the figure of 116 pounds per capita of beef that you mentioned earlier. This would come to an equivalent of two 10-ounce steaks and four ¼-pound hamburgers for every man, woman and child per week.

Assuming the average person had two steaks and four ¼-pound hamburgers, with fish, pork, lamb, and fowl, that would leave eight meat-consuming meals in which there would be distribution between these other protein meals.

How much beyond two 10-ounce steaks a week and four ¼-pound hamburgers would the average person consume, recognizing that you do have fish, fowl, pork, lamb, and so on?

Would this indicate that there is an underconsumption or an underproduction of beef?

I don't think the average family has more than two 10-ounce steaks a week, the average person, or four ¼-pound hamburgers combined with what they normally consume in a variation of these other products.

Mr. MARBLE. Well, I am afraid I am a little bit confused.

Mr. COLLIER. I was until I figured it out.

I took the 116 pounds and divided it by 52. That is per capita figure. Using it in other combinations and taking two 10-ounce steaks and the difference per capita in hamburger.

How much beyond that would the average person likely consume if he wanted some reasonable variation in his diet?

Mr. MARBLE. Are you raising the question as to whether the American consumer——

Mr. COLLIER. Whether there is really an opportunity to expand the consumption of meat in the light of these statistics.

Mr. MARBLE. Oh, I think so.

Mr. COLLIER. Assuming the distribution of consumption was even, which, of course, we know it is not.

Mr. MARBLE. Bear in mind I am speaking exclusively for beef, which is the product I raise and which is raised by the industry in which I am affiliated.

Mr. COLLIER. You are satisfied that your industry could take 40 percent of the total consumption of the average person over a period of a week recognizing that there is going to be competition from fish, fowl, lamb, and pork products?

Mr. MARBLE. Well, I am not sure that this is responsive to what you are asking, but the Argentinian, for instance, eats 190 pounds of beef. He eats no other, or relatively little other, sources of animal protein.

In California, the average beef consumption per capita is 140 pounds. So that we know that where consumers are educated, promoted, or have the opportunity to eat more than 116 pounds of beef, in many instances, they do so. One thing I think that should be recognized is that the statistics I have expressed are in terms of per capita consumption on a carcass weight equivalent. They are not boned out.

Mr. COLLIER. That being the case, my estimates are out of line.

Thank you very much, sir.

Mr. BURKE. Mr. Vanik is recognized.

Mr. VANIK. Mr. Chairman, I would like to get back to this question of the non-subsidized industry.

You talk about no government interference. You want free markets. You want the right to export all you want to export, including all the beef you make in America, because apparently you feel there should be no limitation on exports.

I want to point out that you are using government grazing lands. I don't mean you, but the industry is using them.

Don't you think that perhaps the taxpayers of America have made available these grazing lands, have provided large portions of the West with water?

I personally am responsible for voting on billions of dollars' worth of appropriations to create irrigation. Some of the lakes we created are water supplies for as little as 189 farmers.

This has taken money from all over the United States to build water collection systems which have improved and increased the amount of land that is available for agriculture and for the raising of cattle and other animals.

This has been a tremendous input of subsidy.

The industry has never been a totally unsupported industry by the American taxpayer.

I am having a study made as to the investment of the American people in all of these areas, in the area of development of grazing lands and the development of water supplies.

A great part of the land that your industry uses was created by the taxpayers of the United States. They want you to have a fair profit. They want you to have an incentive, but at the same time they don't want to lose their sources of supply.

We did this in the hope that we were creating a domestic supply for ourselves, first of all. We wanted to be provident.

Now, the export business that you want comes out of that 116 pounds per year, doesn't it?

Mr. MARBLE. No, I don't think so.

Mr. VANIK. Let me ask you this. Do you know how much increased productivity there will be in your industry for this year over last year?

Mr. MARBLE. Not precisely, Mr. Vanik, but I believe it is anticipated that it will be a pound or two per capita. That is what it has been running in recent years. We have had tremendously bad winter weather, as you know.

Mr. VANIK. Weather problems are almost constant. It is either flood or rain or something in one part of the country or another, but they even out because good weather in one part of the country may compensate for bad weather in another part, and your industry is distributed.

I think this is a very important question, and I think I have a right to expect an answer from an expert who testifies before this committee on the effects of this bill on beef exports and imports.

I would like to ask you about this: In your testimony on page 4 you talk about the prime beef going, of course, into the international hotel and restaurant trade and talk about a levy on international trade which should be imposed to finance promotion in the emerging beef-consuming areas of the world.

Do you suggest the transfer of import taxes on beef imported into this country in order to promote the sale of beef abroad? Is that what you suggest?

Mr. MARBLE. Well, that is in the background of the suggestion or as an alternative program such as our own industry has in this country of voluntary deductions within the industry among its producers.

Mr. VANIK. You know there is something to do with the antitrust laws in such matters.

You have to ask Congress for some exemptions in order to precipitate that kind of program.

What I want to direct my question to is: Am I correct in believing that you are suggesting that we tax the hamburger consumers who get the imported beef so that you can promote the sale of the fancy Kansas City steaks in Tokyo?

Are you going to charge the kids that go to the hamburger stand and live on a hamburger diet?

We have enough problems. We have a hamburger syndrome in the country that is affecting the development of our young people.

Do you want to tax that hamburger, so that you can promote those Kansas City steaks in Tokyo or Paris or Versailles or Geneva?

Is that what you want to do?

Mr. MARBLE. I am not proposing that the consumer be taxed.

Mr. VANIK. That is what the paragraph suggests.

Mr. MARBLE. I am not proposing that the consumer be taxed for the marketing development of the cattle industry.

I am suggesting that it is desirable for the——

Mr. VANIK. How do you propose to raise the money then to stimulate marketing?

Mr. MARBLE. Obviously, I think if one is talking about products in the international trade, such as beef, there has to be some cooperative intergovernmental programming to facilitate effective market development.

Mr. VANIK. How are you going to raise the money?

That is a simple question.

How are you going to raise the money?

Mr. MARBLE. I think that money should be contributed by the industry, itself.

Mr. VANIK. On a voluntary basis, without the government being involved at all?

Mr. MARBLE. Yes, for improved marketing and education.

Mr. VANIK. You don't need any language in this trade bill to do that.

You can just pass the hat around to your industry, and they can contribute to stimulate the development of business.

Mr. MARBLE. We do that within our domestic industry. We don't have any help from government.

Mr. VANIK. What you want is a compulsory program, don't you? You want to use the government to attempt to do it?

You think as long as our government is attempting to represent us in international trade, it is not unreasonable to ask it to compulsorily impose a tax on somebody?

Mr. MARBLE. That is your interpretation, Mr. Vanik. That is not my intent.

I really hesitate and regret that you seem to be evidencing to me quite a critical position toward the industry that I am involved in.

Mr. VANIK. I just want to tell you that I am only reflecting the reaction of a half million people, probably two million people, in my community. I am only bringing to you as a matter of communication the reaction of my people to what is happening to their budgets, to their planning, to hundreds of thousands of elderly that are on fixed incomes.

I am relating to you the effect of the current escalation of prices on their family budgets and on their thoughts and on their concern about what I do about it.

I have to do something about this.

Here is today's Washington Star newspaper. The prices of meats, poultry, and fish increased two-tenths percent in April, after the 9 percent rise in March, and they were 28 and one-tenth percent above April 1972.

This is not an easy thing for a legislator to live with.

I will tell you that; if the legislators of this Congress don't do anything about this, there will be a whole new crowd here next year. There will be a whole new crowd brought in that is going to do something about it.

Whether we have to subsidize the production of beef or whatever way we have to do it, or whether we have to control agricultural prices, something will be done, and must be done.

Now let's get back to the subject of import quotas.

You like this because you say this is important to your industry.

On page 6 of your report you say:

> I advocate applying the principle of the Meat Import Act of 1964 to our international neighbors. We will share 10 per cent or so of our beef market with the world, and they should guarantee to us the same privilege.

That is your statement?

Mr. MARBLE. That is right.

Mr. VANIK. Let me ask you this: You say this in light of the fact that you admit that ten pounds of our food consumption is import today. A part of your need is 10 percent of import. You say that notwithstanding the fact that we are only getting from your industry 90 percent of our present needs. You know this kind of limitation.

Mr. MARBLE. What is your question, Mr. Vanik?

Mr. VANIK. The question that I ask is should we bring this across the board to the whole segment of trade?

In other words, should we take this language and apply it to all other articles and things that we bargain with in this country?

If we do, you are recommending, in substance, the Burke-Hartke bill.

Mr. MARBLE. I am confining——

Mr. VANIK. If it is good for beef, it ought to be good for sewing machines. It ought to be good for radios. It ought to be good for transistors. It ought to be good for shoes. It ought to be good for all of these things.

That is what the Burke-Hartke says, let's limit everybody to a portion of the market.

Then I would assume that what is good for beef should be good for shoes, should be good for transistors, should be good for radio tubes or ball bearings or anything else. Is that correct?

Mr. MARBLE. Well, that is your position, Mr. Vanik.

Mr. VANIK. That is yours. Did I read that correctly?

Mr. MARBLE. I am speaking just about the beef sector.

I want to make it clear, Mr. Vanik, that I represent and am a cattle producer from the State of Nevada. I am not a statistical expert or an expert in economics or an expert in world trade.

I would not pretend to know what is good for sewing machines or other products, but I do think I know something about what is satisfactory and reasonable for the beef industry of the United States.

I think the major difference, perhaps, between our mutual or common understanding of this problem is that I have a much different evaluation as to the agricultural potential in this country for increased production of beef for both domestic and foreign trade or consumption.

I want to say one more thing, if I could. I realize that perhaps time is running out. You have raised the question of price of beef and other products, and I agree that the prices of beef today are higher than they have been in the history of the country or perhaps the world.

I share the same concern as you about the impact of those higher prices on consumers and all manner of people who reside in the United States. But, I think that it is unfair, incorrect, and unjust for the presumption to be created that the price of beef today is due to the policies or practices of the beef industry.

They are, in my judgment, due largely to the inflationary policies, economic, fiscal, monetary, of our Government over a period of years. The beef industry has been just as subject to the inflationary demand pull as many other industries. The thing that is important to recognize within the beef industry, as well as all agriculture, is that the production of agricultural commodities in the United States, particularly beef, has gone up and up to the point that there is no consumer any place in the world that has any greater availability at any less price than the products of our industry.

Mr. VANIK. Let me ask you this: You recommend that we open up the EEC for you and get those trade barriers removed.

What are we going to import from the EEC countries to balance that?

They are going to insist on some quid pro quo on that.

What do you think they are going to have to sell us in order for us to get for you the chance to play a more active part and get a more generous portion of the EEC market?

Mr. MARBLE. Mr. Vanik, again I would just have to admit to a general lack of expertise in this matter of international trade. I have every confidence that there are products that they would like to ship into this country.

Mr. VANIK. They would like to ship more automobiles, for example.

Mr. MARBLE. That is probably right.

Mr. VANIK. Do you propose that we should lose jobs in Detroit and Toledo and Cleveland in order that we can create more profitability for your industry?

That is what it amounts to. You ask us to say, "Let them have a greater portion of our automobile markets so that you can have a greater portion of their beef market."

On a job basis it doesn't add up. It doesn't turn out so well.

When we make something here that is as sophisticated as an automobile, it generates work for many, many people. The man-hours of production are infinitely greater than are the manpower hours of production in agriculture. It doesn't balance out.

So what you suggest is, "Lose the automobile jobs so that you can develop for my business a good market for our beef."

That is substantially what you are saying. It just isn't going to work out that way.

With respect to the import quotas, I feel that one of the first things that ought to be done if we adopt this bill is to terminate the import quotas on beef.

You want a free market. Let's give it to you. And that means next year, the year after that and five years from now. If they develop a quality of beef that is comparable with ours, you will have to face up to that, because you just cannot have it when it's nice and not have it when it's raining, because we are adopting a permanent policy, and this Congress is going to remove a lot of the flexibility that is in the present bill.

There are going to be things that will trigger in exports or imports or trigger in restrictions or ease them.

As we go to that process, you are talking about your industry for the long pull, and I think it is extremely dangerous to assume that the market will always be as it is today.

I yield to my colleague, Mr. Burke.

Mr. BURKE. On page 3 you refer to the export of cattle and calf hides for the year of 1972 in total, $277 million. What was the total export of cattle and calf hides for 1970?

Mr. MARBLE. I really don't know, Mr. Burke.

Mr. BURKE. Did the exports of hides double over that period?

Mr. MARBLE. I couldn't give you an accurate answer.

Mr. BURKE. What happened to the domestic markets on hides when you exported this $277 million in cattle and calf hides?

Mr. MARBLE. Well, the market price of hides generally has been higher over the last year than it had been.

Mr. BURKE. There was a control of the price of hides for a period there?

Mr. MARBLE. For a short period of time.

Mr. BURKE. During that period you people exported the hides overseas?

Mr. MARBLE. My recollection of that period was when there were controls, it really knocked the market for hides into a kind of "cocked hat."

Mr. BURKE. You people not only got your high prices and were gouging the people on meats, but then you turned around and took a product that was greatly in need here domestically and just shipped them overseas where you got the top dollar for them, and you closed down tanneries all over the country.

Isn't that correct?

Mr. MARBLE. That is incorrect, Mr. Burke.

Mr. BURKE. It is correct, because they closed them in my district.

I think that you people have to be a little bit realistic.

As Mr. Vanik has pointed out, you would like to have quotas on meats, which I advocate across the board.

But let me serve notice on the cattle and hide people that, if we don't get the Burke-Hartke provisions on quotas, you people are not going to get it either.

If this is going to be a free market, believe me, it will be a free market all the way, and let you all sink or swim in your own pond.

You just can't make fish of one and flesh of another.

You people are going two ways. You are able to take an industry that was suffering as a result of imports and deprive them of the hides that they needed to conduct their business and ship those hides overseas, and then you turn around and get your top prices on beef.

It was all right. You had the Secretary of Agriculture backing you up, and you had the rural legislators backing you up, and you had some other people who thought there should be no embargo on hides, but you people have started something, and we are going to follow through on it. Because, if there is not going to be quotas on footwear, textiles, electronics and other things, you can rest assured before the final bill is submitted to Congress there will be no quotas on anything.

This will either be an all free trade bill, right across the board, or it will be a bill that provides for quotas for certain industries which are suffering injury.

You people can't have it all your way.

Apparently they sent you up here because you have that nice appearance and that kindly look.

But we know what the facts are, and as I referred to the fat cat cattle barons, they had better start looking at this trade bill and start looking across what affects all of America.

They can't have their cake and eat it, too, and they are not going to get it under this trade bill.

You had better go back and tell your people that.

Is there anybody else who wanted to question the witness?

Mr. VANIK. Mr. Chairman, I am just going to say this: If the food supplies are tight and continue to be that way in meat, it may become necessary for the Federal Government to probably subsidize the production of beef, particularly for that segment of the society that is retired and elderly and on fixed income so that we have a basic supply for people who otherwise are going to be completely cut off from what they need for health and what they need for education and what they need for development.

We are at a point today that, in my community, family diets are terribly low on protein because of the lack of meat in the diet because of the price.

Thank you very much.

Mr. MARBLE. Thank you.

Mr. BURKE. You are excused as a witness.

[The prepared statement of the Cargill Corp. referred to earlier, follows:]

STATEMENT OF THE CARGILL CORPORATION OF MINNESOTA

BUILDING A FOREIGN ECONOMIC POLICY FOR THE SEVENTIES

BACKGROUND

I. Origins. The principal international economic institutions that have governed world trade, investment and monetary relationships were put in place at the close of World War II. The General Agreement on Tariffs and Trade (GATT) emerged from efforts in the late 1940s to construct trading rules that would avoid the devastating economic nationalism which characterized the Depression years and which contributed to the political nationalism that spilled over into world war. The International Monetary Fund (IMF) was created at Bretton Woods and reflected the desire of nations to avoid competitive devaluations of currencies and to restore convertibility.

Though each of these institutions arose to meet specific objectives, the broad purpose underlying both of them was to undertake the massive task of reconstruction and to set the world upon a path of sustained recovery and economic growth. When these efforts at reconstruction and expansion were launched, the United States enjoyed a fortunate position among the major economies of the world. Our industrial and agricultural productive systems had emerged from the war virtually intact, and we possessed the gold and currency reserves with which to finance a major share of international recovery. Equally important, the people of the United States and elsewhere shared a buoyant spirit that put the destruction of war behind and looked out into a future of peaceful competition, cooperation and prosperity.

II. Achievements. The success of these efforts, institutions and spirit is striking. Economies devastated by war have been restored and have achieved unprecedented strength and vigor. In place of a politically splintered Europe stands today a recently enlarged European Community of nations moving toward economic integration and striving for political cohesiveness. Japan has rebuilt her economy and embarked upon an economic growth virtually unparalleled in history. The United States has achieved and maintained a standard of living and well-being without equal. As noted in the Annual Report of the Council on International Economic Policy, this remarkable achievement by individual countries has been matched by international progress:

> For more than a quarter of a century the world has enjoyed economic growth uninterrupted by either global war or global depression. Rising incomes have created mass markets, and the rapid pace of technological development has led to more efficient production of countless products. Most developed countries now have standards of living which offer much more than simple survival to most of the population. And many less developed countries, after centuries of stagnation, have begun to make impressive economic progress. . . For a century prior to World War II, international commerce had grown at the rate of about 4% a year. Since 1945, foreign trade has expanded by more than 7% a year. 1/

The interrelationship between peaceful competition in an increasingly liberalized world trading environment and improved individual well-being is perhaps best illustrated by the following facts. Tariff barriers have declined by three-quarters from pre-World War II levels, and trade has expanded more than four times in real terms. Between 1950 and 1971, exports from the U.S. grew from 9.1 percent of production to 14.2 percent. For Japan and West Germany, the percentage of production moving into exports has approximately doubled. Between 1960 and 1971, World Gross Product has more than doubled, rising from $1.5 to $3.6 trillion.

1/ International Economic Report of the President, together with The Annual Report of the Council on International Policy, transmitted to the Congress, March 1973, 1.

III. Changed Circumstances. Obviously, progress of such magnitude has also wrought great changes in the world. In place of American economic dominance, there has emerged an international economic community where the United States, Western Europe and Japan have become rough equals. As barriers to trade have come down, as communications and transportation networks have improved and as multinational companies from all countries have begun to look at the world as their marketplace, the world has been drawn into a much closer economic interdependence. And, as commerce draws nations together, the pace of change has accelerated.

While this transformation of the world economy testifies to the success of our international systems and rules, it has also exposed those systems to greater stress. For example, the Bretton Woods system provided a stability in currency relationships that was crucial to trade expansion over the past few decades. Increasingly, however, that stability has tended to become overly rigid, preventing adjustments between exchange rates on a timely basis. As a consequence, major trading nations have experienced recurring monetary "crises," with currency imbalances only being corrected after serious depletions or accumulations of reserves have occurred.

Similarly, while past trade concessions have facilitated a rapid expansion of international trade, certain distortions in the present world trading system stemming from past concessions need to be corrected. There remain, for example, a number of quantitative restrictions against many commodities moving in international trade long after any prior balance-of-payments justifications has disappeared. A number of these restrictions apply against some of our own potentially most competitive exports, such as computers and food products. Moreover, past failures to incorporate agricultural trade in the general liberalizing thrust of world trading rules have permitted creation or maintenance of a number of domestic policies and border practices that have been very effective in limiting and distorting trade in agricultural products.

With our natural comparative advantage in production of many farm goods--enhanced by the most technologically advanced and efficient agricultural practices in the world--such barriers may cost the United States as much as $4 to $5 billion in foregone farm product exports each year while adding many unnecessary billions of dollars to consumer food bills. Finally, alongside positive movements toward economic integration there has also arisen a spreading system of preferential trading arrangements involving most of Western Europe, Africa and the countries bordering on the Mediterranean. While there are real needs to bring less developed countries more fully into the international trading community, by 1975 almost 70 countries could be practicing various forms of preferential tariff discrimination in ways undermining the most-favored-nation principle which serves as the cornerstone of GATT.

Not all stresses on the international trading system have come from change. As tariff barriers have fallen, it has become increasingly clear that many countries--including the United States--maintain non-tariff barriers to trade which seriously distort commercial exchange. A Working Party of the GATT has identified over 30 classifications and over 800 types of non-tariff barriers which need to be addressed if the world is going to continue to move toward a more open, equitable world trading system.

IV. Strains Upon the U.S. These stresses on international monetary and trading systems have triggered problems within the United States. The most obvious problem has been the pronounced and rapid shift away from a trade surplus averaging about $5 billion ten years ago to a trade deficit which exceeded $6 billion this past year. Because of steady and sizable outflows on other balance-of-payments accounts--including tourism and government expenditures--the U.S. has generally experienced a balance-of-payments deficit over-all in these years. For a time, this was desirable and necessary in order to build up asset reserves in other countries and to provide liquidity for an expanding level of trade. But, around 1959, U.S. liquid liabilities to all foreigners rose above U.S. reserve assets. Toward the end of 1969, U.S. liquid liabilities to foreign official agencies began to mount dramatically, reaching $57.6 billion by October, 1972, compared to reserve assets of about $13 billion. In other words, the U.S. trade balance moved into serious deficit at the same time that unwanted dollars began to accumulate in foreign official hands. Under the intense pressures of this anomaly and the failure of other nations to take corrective trade or monetary measures that would boost U.S. exports, the monetary system established at Bretton Woods came undone.

The reversal in America's trade performance generated other expressions of concern in this country. Some began to argue that the U.S. was no longer able to compete effectively in international markets. Some pointed to increasing foreign direct investment by U.S. multinational concerns and to mounting imports in several commodity sectors in support of their conclusion that American trade and investment policies were resulting in export of U.S. jobs. Such groups--both within organized labor and within certain industrial sectors--urged a policy of withdrawal from international markets. Import quotas and other measures were advocated to restrain imports. Curbs on multinationals were advocated to inhibit movement of U.S. capital abroad, while drastic changes in tax treatment of foreign source income of U.S. multinationals was put forward as a means of forcing American-based companies to abandon expanding markets abroad to foreign competitors. These proposals surfaced in a host of legislative proposals, but most of them were joined together in the "Foreign Trade and Investment Act of 1972" (re-introduced in 1973)--the so-called Burke-Hartke bill.

What followed was one of the most profound re-examinations of U.S. trade and investment policies ever undertaken. Unions, companies, commissions and governmental agencies began massive studies of these issues, and a good deal of healthy dialogue on these issues has been stimulated. On many issues, investigation has merely illustrated how complex and little-understood many of these issues are. And on many issues, policy alternatives--together with their likely welfare consequences--can now be formulated with a good deal of confidence. This controversy will be reviewed in a later section of this paper.

CONSEQUENCES OF RECENT U.S. FOREIGN ECONOMIC POLICY INITIATIVES

I. Currency Realignment. It may be useful, however, to ask whether the pronounced changes in world monetary policies and related initiatives in negotiating new trade policies have not themselves substantially altered the circumstances which originally gave rise to these profound concerns. As is now familiar, President Nixon, on August 15, 1971, suspended convertibility of the dollar into gold or other reserve assets, imposed an import surcharge and initiated a policy designed to bring U.S. domestic inflation under control. Subsequently, the dollar was devalued and other major currencies revalued in the Smithsonian Agreement of December, 1971. Because these changes were not sufficient to accommodate the imbalances that has arisen, there was a further major adjustment in currency relationships in February, 1973. As a result of these two currency realignments, foreign currencies of the major trading countries in the OECD have appreciated against the dollar by more than 15 percent on a trade-weighted basis. If Canada--whose currency continues to float--is excluded, the trade-weighted appreciation of these currencies against the dollar becomes 23 percent. For Japan--which accounted for nearly two-thirds of our trade deficit in 1972--the yen has appreciated more than 30 percent above its pre-August 15th level.

II. Trade Consequences. These currency changes have profound consequences for the trade problems that have triggered so much domestic concern and debate. In the first place, U.S. exports are now much more competitive in international markets. This major improvement in competitiveness--coupled with surges in growth rates among major trading partners--will provide a substantial boost to U.S. exports. March U.S. trade figures--showing a trade deficit of less than $100 million, compared to nearly $500 million the previous month--indicate that boost is already being felt. At the same time, devaluation of the dollar relative to the currencies of major trading nations strengthens the position of U.S. domestic industries facing competition from imports. This renewed competitiveness is reflected in the fact that a number of U.S. industries--including the textile, automotive, steel, chemical and petroleum industries--are now operating at nearly full capacity. As these changes continue to take hold, trade-related employment trends will improve.

III. Foreign Investment Consequences. At the same time, these currency changes make foreign direct investment by U.S. firms much less attractive and investment in the U.S. much more attractive. The reason is quite simple: it now takes substantially more dollars to buy the marks, francs or yen with which to invest in those countries. On the other hand, marks, francs and yen will be able to buy proportionately more dollars with which to invest in the U.S. As a result, not only are the incentives for dollar outflows greatly reduced but the incentives for investment by foreign concerns in the U.S. substantially increased. The positive employment implications of these developments are highly encouraging.

IV. Domestic Consequences. In addition, U.S. performance in controlling unit labor costs has been substantially better than that of our principal trading partners since August, 1971. Our efforts to control inflation have been substantially more successful than those of our trading partners, and our unit labor cost position relative to other countries now resembles our position in 1965 when we enjoyed a substantial trade surplus. This success lays solid groundwork for continued improvement in our competitive position--in both international markets and at home in competition with imports. At the same time, unemployment has dropped from the very high levels of 1970 and is projected to continue to drop to about 4.5 percent by the end of this year. While all of these developments do not add up to a complete solution of our economic difficulties, one thing is absolutely clear: the economic circumstances which generated concern over our competitiveness and the employment consequences of U.S. trade and investment policies in 1971 have been altered dramatically, and conclusions drawn at that time have little applicability to these changed circumstances.

V. Momentum for Reform. Equally important, the impetus for mounting continuing attacks on the conditions which caused these deteriorations is strong. The U.S. has not only secured temporary adjustments in currency relationships; it is also pressing for construction of a set of rules which will prevent the kinds of uncorrected and prolonged distortions we recently experienced from recurring. That effort is well set-out in Treasury Secretary George Shultz's statement before the IMF in September, 1972:

> Resistance of surplus countries to loss of their surpluses defeats the objective of monetary order as surely as failure of deficit countries to attack the sources of their deficits. Any effort to develop a balanced and equitable monetary system must recognize that simple fact; effective and symmetrical incentives for adjustment are essential to a lasting system.

Agreement of the Committee of 20 to the concept of "stable but adjustable" exchange rates manifests growing international recognition of the symmetrical responsibilities of all nations to move promptly to make timely adjustments in order to correct emerging imbalances before they impose serious consequences--whether through inflation or unemployment--on domestic economies.

As a result of the Smithsonian agreement, the major trading nations of the world also committed themselves to undertake broad-scale multilateral trade negotiations. Those discussions are currently scheduled to begin in the Fall of this year. An important recognition guiding U.S. negotiating efforts will be an awareness of the vital role played by an open, non-discriminatory trading system in promoting balance-of-payments adjustments. This recognition has crucial consequences for trade, investment and employment. If, as a result of quantitative restrictions, variable levies, local content requirements or other non-tariff barriers, certain sectors of trade are prevented from reflecting currency changes in trade flows, several problems ensue: (1) currency changes which should have been adequate will come up short of meeting adjustment needs; (2) certain trading sectors may be forced to make over-adjustments, to compensate for failure to reach effective adjustments in trade flows in other sectors; or (3) some may be forced to invest in foreign countries to get inside of trade restrictions which effectively close off markets that could be served through exports. In other words, liberalizing and reforming international trading rules and constructing a more open, equitable and balanced international monetary system are necessarily related efforts. Success in one hinges upon success in the other. The atmosphere for fundamental reform must be supported--in scope and in concept--by authorities for equally far-reaching initiatives in trade reform. With these mutually self-supporting initiatives, the U.S. can continue to move toward an infrastructure of international economic policies that will further the positive investment and employment consequences deriving from actions taken since Fall, 1971.

VI. Summary. In summary, the two devaluations of the past 18 months, the commitment to undertake fundamental monetary reform, the efforts to bring U.S. domestic inflation under control while moving back toward full employment, and outward-looking trade-negotiating and trade-management authorities addressed at reforming and liberalizing international trade form a coherent and integrated policy directly attacking problems that prompted concerns manifested in proposals like Burke-Hartke. Such a policy should: (1) help restore U.S. international competitiveness; (2) help strengthen the ability of domestic industries to meet import competition; (3) help increase the employment-generating effects of U.S. trade and investment policies; (4) help enhance consumer and worker well-being; and (5) help defuse artificial incentives for U.S. capital to move abroad. In considering the future course of U.S. trade policy, this fundamental change in the circumstances and position of the U.S. since late 1971 should be fully recognized.

THE TRADE POLICY CHOICE

I. The Negative Prescription. Beyond the need to recognize how the events of recent months have changed the balance of economic forces, policy-makers must consider what consequences will flow from alternative trade policies. Some in the United States seem to believe that it is realistic or even possible for us to respond to the changed world of today by turning inward. Some seem to believe that we have lost our ability to compete internationally. Some seem to believe that we stand little chance of securing the kind of international economic system that will permit all developed nations to compete on an equal footing. Some seem to believe that we should respond to the challenge of international competition by walling out the rest of the world rather than developing international and domestic policies which will permit orderly adjustment while rebuilding a vigorous competitive posture. And some seem unwilling to extend to developing countries the kinds of access to our markets they need to accelerate their development.

These concerns reflect the judgment that an outward-looking trade policy of the sort outlined in the Trade Reform Act of 1973 does not serve America's domestic or foreign interests. Those who share this judgment would have the U.S. withdraw behind protective walls, turn inward and ignore the challenges of the international marketplace. While some of the concerns motivating this judgment are serious, responsible and deserving of public policy attention, turning inward is not a positive response to either our foreign or our domestic policy interests.

II. The Positive Prescription. Clearly, the United States is faced with a policy decision of major dimensions. The consequences of our choice between these policy alternatives--either to expand outward into a more interdependent world or to turn inward and retreat from a responsible role in a mature world--will be with us for years to come. The only policy appropriate to America's traditional leadership role is to move forward into a freer, more open, more responsible world. The growing connection between our foreign policy and our foreign economic policy require this. But the goals of our domestic policy--more and better jobs, a higher standard of living for all our people and a fuller, more secure, more meaningful life for our citizens--also require such a policy. The analysis leading to this conclusion deserves to be reviewed.

EXAMINATION OF THE DIMENSIONS OF THE TRADE PROBLEM

I. Slow Export Growth. In the first place, available evidence indicates that the decline in our trade balance over the last few years cannot be attributed to an inordinate rate of growth in imports into this country. Department of Commerce figures demonstrate that the compound rate of growth of U.S. imports for the years 1960-71 was about 10.6 percent. This rate of growth is lower than the rate of import growth in all major industrial countries except the United Kingdom and Canada. During the same period, the compound rate of growth for U.S. exports was only 7.5 percent. The United Kingdom--with a rate of 7.0 percent--is the only major trading country with a lower rate of export expansion. Significantly, the U.S. rate of growth in exports was far below the rate for Japan--about 17 percent--and for Germany--about 11 percent. Japan's trade surplus of $4 billion and Germany's of $1 billion with the U.S. account for a major portion of our over-all deficit this year. In other words, the evidence suggests that the decline in the U.S. trade account stems not from an inordinate flux of imports but from a depressed rate of growth in exports.

II. Inflation. One of the prime reasons for this poor export performance has been the impact of a high rate of inflation in the U.S. on export prices. United Nations statistics on average annual rates of change in export prices for major trading nations illustrate this quite clearly:

COMPARATIVE AVERAGE CHANGES IN EXPORT PRICES, 1961-70

Country	Average Annual Change 1961-65	Annual Average Change 1966-70
United States	0.7%	3.8%
West Germany	1.0	2.7
France	1.3	1.5
Japan	-1.7	2.9

Source: UN MONTHLY BULLETIN OF STATISTICS, September, 1972.

The trends are significant. In the first place, the generally higher level of export price increases for all countries in the later period evidences a higher rate of inflation among all developed countries recently. Secondly, while in the period of relative price stability enjoyed by the United States in 1961-65, the U.S. rate of change in export prices was generally below that of its trading partners, in the later period the U.S. average annual increase in export prices was significantly above the rates of increase in other countries. Compounded over the period, the U.S. had a significantly worse export price performance for the latter half of the decade than our competitors.

A similar trend is reflected in unit labor costs in these nations, another reflection of how domestic U.S. inflation eroded our export competitiveness. Significantly, however, the relatively poor comparative performance of the U.S. in unit labor costs during the latter half of the 1960s appears to have been reversed more recently:

PERCENTAGE CHANGE IN UNIT LABOR COSTS FOR MANUFACTURING EMPLOYEES, SELECTED COUNTRIES, 1965-70 and 1971
(relative to national currencies)

Country	1965-70	1970-71
United States	4.4%	2.7%
West Germany	4.1	8.3
France	2.9	5.2
Japan	1.1	8.1

Source: MONTHLY LABOR REVIEW, July, 1972, 6.

Coupled with exchange rate adjustments achieved in the Smithsonian Agreement and more recently, the prospect for future competitiveness of U.S. exports appears brighter, provided inflation can be held in check.

III. Other Factors. There are, of course, other factors which have contributed to the relatively poor U.S. export performance in recent years. Among these are: an inflexible monetary system which postponed needed changes in exchange rates; the recovery of Japan and Europe--together with the attainment of economies of scale in production--that has fueled their heightened competitiveness; distortions of world trade flows, some of which have fallen particularly hard on U.S. exports--especially U.S. agricultural exports, where the U.S. has a pronounced comparative advantage; and structural factors which make some economies more export-oriented. These other influences reinforce the above analysis, since they indicate that the solution to U.S. trade problems lies not in walling out imports but in pursuing monetary and trade negotiations which will remove these barriers.

IV. Employment Consequences of Trade. Nor can a convincing case be made that imports are responsible for worsening aggregate unemployment. In the first place, imports--about $55 billion in 1972--are only about 4 percent of total GNP in the U.S. It would take massive trade shifts to produce any significant impact on aggregate employment.

Moreover, there does not appear to be any significant correlation between trade shifts and over-all unemployment levels in the U.S., largely because the trade sector of U.S. production is relatively small compared to domestic forces affecting employment--monetary and fiscal policies, governmental spending, and shifts in demand. Thus, for example, Krause and Mathieson note that, ". . . while the trade balance was declining from $6.8 billion in 1964 to $0.7 billion in 1969, unemployment also declined from 5.2 percent to 3.5 percent." 1/ While our trade balance deteriorated by $6 billion between 1964 and 1969, unemployment during the same period declined by 1.7 percent. Similarly, while the U.S. trade deficit deteriorated by more than $4 billion in 1972, the rate of unemployment also declined from about 6 percent to about 5.2 percent. This is not to say that a declining balance of trade is not a matter of serious concern; it is merely to say that solutions to trade problems and solutions to aggregate unemployment problems are not tied together in the manner suggested by some restrictive trade policy advocates.

V. Summary. In summary, available evidence indicates that the deterioration in our balance of trade stemmed from a poor export performance--tied principally to high rates of inflation in the U.S. compared to our trading partners--rather than from an influx of imports. The relatively small percentage of U.S. production affected by trade--coupled with available evidence--also demonstrates that imports or trade shifts are not the cause--or the panacea--of our aggregate unemployment problems. Finally, an improved performance by the U.S. in controlling

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1/ "How Much of Current Unemployment Did We Import?", Lawrence B. Krause and John A. Mathieson, BROOKINGS PAPERS ON ECONOMIC ACTIVITY,2: 1971, 421.

inflation relative to our major competitors, new exchange rate relationships together with negotiations to make international monetary policies more responsive to economic forces and effective negotiations to remove major barriers to U.S. exports offer the most promising avenue to an improved balance of trade for the U.S.

FOREIGN DIRECT INVESTMENT AND THE MULTINATIONAL CORPORATION

I. The Indictment. A great deal of concern has also been expressed about the impact on U.S. employment of the multinational corporation. Elements of organized labor, especially, have claimed that multinational corporations are "exporting U.S. jobs." This indictment is frequently augmented by the claim that multinational corporations are undermining the competitive position of the U.S. by exporting advanced technologies through foreign investments and licensing agreements. The question of the economic impact of multinational corporation activities has spawned perhaps the greatest amount of controversy as well as the heaviest flow of information, surveys, studies and analyses.

II. Indications of Available Evidence. To review all the information that has been generated is a massive task. Such a review, however, indicates the following: at best, proponents of Burke-Hartke have been able to point only to isolated incidents where multinational activities have resulted in losses of American jobs; they have provided no substantive evidence in support of a comprehensive indictment of multinationals; and the available evidence strongly suggests that the net effects of the multinational corporation on the economy of the U.S.--and of host-country nations--have been distinctly positive.

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III. Aggregate Effects of MNCs. One of the most comprehensive and earliest studies of the impact of multinational corporate activities was the survey compiled by the Emergency Committee for American Trade. That survey analyzed the domestic and international operations of 74 U.S. corporations--with aggregate sales of $113 billion in 1970, about one-fifth of total U.S. shipments of manufactured products--for the period 1960-70. The major conclusions of that study showed that multinational corporations:

--Increased the number of their domestic employees by nearly 900,000 from 2,452 thousand to 3,348 thousand,

--Increased the book value of their fixed assets in U.S. manufacturing facilities from $15.3 billion to $34.1 billion, a gain of $18.8 billion,

--Increased their sales from American facilities from $58 billion to $113 billion, a gain of $55 billion,

--Increased their exports from the United States to the rest of the world from $4.3 billion to $12.2 billion, a gain of $7.9 billion,

--Increased their net surplus of exports over imports from $3.2 billion to $6.6 billion, a gain of $3.4 billion,

--Increased the balance of payments inflows attributable to their foreign investments--dividends,earnings, interest, royalties and fees--from $.5 billion to $2.4 billion, a gain of $1.9 billion,

--Increased their annual net balance of payments inflows from $2.9 billion to $7.3 billion, a gain of $4.4 billion. . .

--Increased their domestic employment (exclusive of employment gains through acquisition) more rapidly than the average manufacturing firm. Their rate of new job creation was about 75 percent greater than that of all other manufacturing firms,

--Increased their investment in domestic plant and equipment more rapidly than other U.S. manufacturing firms and more rapidly than their foreign investments,

--Increased their domestic sales more rapidly than the typical U.S. manufacturing firm,

--Increased their sales from domestic facilities twice as much as from their overseas operations,

--Exported a growing proportion of their domestic production. Their ratio of exports to domestic production in 1970--10.8 percent--was double that of the average U.S. manufacturing firm,

--Accounted for a small and (except for U.S.-Canadian automobile trade) declining proportion of total U.S. imports. 1/

The picture that emerges from this well-documented survey shows--as one would expect--a profile of American companies who see the world as a market and are active in it. This includes not only growing investments and production abroad but also growing exports from the U.S. to other countries and a rapidly rising positive contribution to U.S. balance-of-payments. What also emerges is a profile of American companies that not only account for a growing export trade but also a declining share of imports into the U.S. Finally, one sees in this profile American companies that not only are not growing abroad at the expense of U.S. employment and production growth but are actually increasing their domestic book value, sales and employment more rapidly than the average manufacturing firm. In other words, the multinational corporations whose pictures were snapped in this survey represent a cross-section of the most dynamic American firms, both abroad and domestically.

These findings are not an isolated instance. For example, the U.S. Chamber of Commerce Multinational Enterprise study of the experience of 121 firms showed an increase of 31.1 percent in domestic employment over the past decade--from 2.5 million in 1960 to 3.3 million in 1970. This was well ahead of the national percentage increase for the same period. This study also confirmed ECAT's

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1/ THE ROLE OF THE MULTINATIONAL CORPORATION IN THE UNITED STATES AND WORLD ECONOMIES, Emergency Committee for American Trade (February, 1972), 4-5.

conclusion that multinational corporations increase exports from the U.S. much more rapidly than the national average. Finally, the Chamber of Commerce found that--contrary to claims that multinationals export jobs in a search for cheap labor--the most preferred locations for foreign direct investments were the advanced, highly industrialized, high-wage countries of North America and Western Europe, with the main incentives for such investments being to preserve foreign markets against competition and to overcome barriers to trade. 1/ A study by the National Foreign Trade Council confirmed these conclusions on the reasons why U.S. multinationals invest in foreign markets, adding that there was no evidence that either exports or investments in the U.S. domestic economy were reduced by investments abroad. 2/

IV. Individual MNC Effects. Studies by individual multinational corporations of the effects of their foreign investments on domestic employment, exports and the balance-of-payments are becoming an increasingly significant part of the body of literature on this issue. The results of these individual company studies are important for several reasons. First, they confirm the positive effects of foreign direct investment uncovered by the aggregational studies detailed above. Secondly, they dramatize the job content here in the U.S. of these investments.

1/ UNITED STATES MULTINATIONAL ENTERPRISE: REPORT ON A MULTINATIONAL ENTERPRISE SURVEY (1960-1970), U.S. Chamber of Commerce, 16-17.

2/ ECONOMIC IMPLICATIONS OF PROPOSED CHANGES IN THE TAXATION OF U.S. INVESTMENTS ABROAD, National Foreign Trade Council, Inc., (June, 1972), 5. Similar findings and conclusions have been reached in the following studies: (See attached page).

(Cont'd. Footnote 2/)

National Foreign Trade Council - "The Impact of U.S. Foreign Direct Investment on U.S. Employment and Trade : An Assessment of Critical Claims and Legislative Proposals" - 34 page booklet, Nov., 1971: "Economic Implications of Proposed Changes in the Taxation of U.S. Investments Abroad," 27pp., June, 1972.

National Association of Manufacturers - "U.S. Stake in World Trade and Investment - The Role of the Multinational Corporation" - 86 pp., Jan., 1972; "Foreign Direct Investment and the Multinational Corporation - The Facts and the Myths," by William R. Pollert, reprint, 7 pp., April, 1972. "Information Kit on the Multinational Corporation and the Burke-Hartke Bill," August, 1972; Study of impact of Burke-Hartke tax provisions on 83 companies, December, 1972.

U.S. Chamber of Commerce - Survey of 158 large corporations, Feb. 14, 1972. Special report, "Foreign Trade and Investment Controls," Feb. 10, 1972. "Could Foreign Competition Take My Job?" pamphlet, 11 pp., April 12, 1972. "United States Multinational Enterprise -- Report on a Multinational Enterprise Survey (1960 - 1970,)" final report, June, 1972.

Business International - Investment and Trade Study of 86 multinational companies, Feb., 1972. "Investment Abroad is Investment in America," "Does Foreign Investment by American Companies Threaten American Jobs?" brochure, 16 pp., and question and answer pamphlet, 6 pp., June, 1972.

Center for Multinational Studies - "U.S. Multinational Investment in Manufacturing and Domestic Economic Performance," by Professor Robert G. Hawkins, New York University Graduate School of Business Administration, Occasional Paper No. 1, Feb., 1972.

Committee for Economic Development - "U.S. Foreign Economic Policy and the Domestic Economy," report issued by Program Committee of CED, July, 1972, 17 pp.

The Conference Board - Studies in preparation on "Product Imports, Exports, and Overseas Production: Their Impact on U.S. Employment"; and a survey of 77 U.S. corporations, the origins and nature of their foreign operations, product mix, transfer of technology and employment.

For example, a study by Minnesota Mining and Manufacturing has concluded that one out of every eight U.S. jobs exists because of its foreign activities. Finally, these individual company studies give greater insight into the reasons multinationals choose to make foreign investments. Among the most important of those reasons are: to meet foreign competition in that market; to produce product lines attractive to that market but not in the U.S.; to meet local-content or government-procurement regulations in the local market; to circumvent other kinds of trade barriers; or to secure raw materials. All of this evidence suggests two conclusions. First, in spite of isolated instances where foreign direct investments have displaced American jobs, the major consequences on aggregate employment levels, on exports and on balance-of-payments of multinational corporate activities have been distinctly positive. 1/ Secondly, where investments have been made abroad to circumvent artificial trade or investment barriers, the most direct and promising solution to this problem would be to provide the President the negotiating authorities he needs to remove these artificial trade barriers and investment incentives.

V. Differences Among MNCs. These many aggregational and individual company studies also indicate another important feature of multinational corporate activities-that there are wide differences among firms with international outlooks. Some firms have achieved multinational status in search of raw materials needed by the U.S. economy. Others have moved into the international marketplace to meet

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1/ American Cyanamid Company - "The Burke-Hartke Bill - Cyanamid Response," manuscript, 26 pp., Jan. 26, 1972; Cyanamid News, Feb., 1972, editorial on multinational company and Burke-Hartke; "The Challenge of Burke-Hartke," article by Joseph C. Calitri in June, 1972, issue of Financial Executive; "The Multinational Company - A Politcal Reckoning," speech by Joseph C. Calitri, Oct. 5, 1972.

(See attached page)

(Cont'd. Footnote 1/ p. 13)

Cargill, Inc. -- "Burke-Hartke: A Legislative Challenge to Agricultural Trade," Congressional Record, April 21, 1972, E.4143-45; "A Positive Response to Burke-Hartke," Congressional Record, May 23,1972,E-5614;"Protectionist Threat of U.S. Agriculture," Cargill News, Mar./Apr., 1972.

Caterpillar Tractor Co. - "The Win-Win Situation: How U.S. Investment Abroad Benefits the U.S. As Well As the People of Host Countries," Speech by Lee L. Morgan to 1971 National Foreign Trade Convention; "Your Global Paycheck - Why Caterpillar Has Built 11 Plants Outside the U.S. Since 1950, How Plants Abroad Have Helped Caterpillar Increase its U.S. Exports and Jobs," 16 pp., Illustrated brochure, April, 1972.

Clark Equipment Company - "Clark over there means jobs over here!" 16 pp., booklet, October, 1972.

Deere & Company - "Foreign Trade, Investment and John Deere," 20 pp., booklet; "Questions and Answers on the Burke-Hartke Bill," 19 pp.

E. I. du Pont de Nemours & Company - Better Living magazine feature on multinational corporations, January, 1972.

Exxon Corporation - "Proposed New Restrictions in U.S. Foreign Trade and Investment Policies," 34 pp., booklet; prepared by the company's Public Affairs Department, November, 1972.

Ford Motor Company - "Ford: A Global Corporation," 12 pp., booklet concerning the company's international activities, October, 1972.

Goodyear International Corporation - Fact Book, "Some Facts About Multinationalism in the Tire and Rubber Industry," 16 pp., Nov., 1971. "Information on the Multinationals," booklet, 22 pp., June, 1972.

Johnson & Johnson - "Foreign Business, U.S. Jobs and Johnson & Johnson," 4 pp., brochure, Oct., 1972.

Minnesota Mining and Manufacturing Company - Remarks by Harry Heltzer before House Republican Task Force on International Economic Policy, June 21, 1972. "America at the Crossroads: Trade or Retrenchment?", booklet, 11 pp., June 21, 1972.

Pfizer, Inc. - Public Affairs Division - "Background Report, Foreign Trade and Investment Act of 1972 (Burke-Hartke Bill)", July, 1972, 78 pp.

Publications of U.S. Government

Report of the Commission on International Trade and Investment Policy (Williams Commission) to the President, September, 1971.

(Cont'd. Footnote 1/ p.13)

Publications of U.S. Government (Cont'd.)

A Foreign Economic Perspective - report by Peter G. Peterson to the President, December 29, 1971; also The United States in the Changing World Economy, document material which provided the information for background briefings to the President during 1971, (available from Superintendent of Documents, $3.25 per set).

U.S. Department of Commerce - "U.S. Direct Investment Abroad 1966, Part I: Balance of Payments Data," supplement to the Survey of Current Business, August, 1971, $1.75, Government Printing Office. First volume of data from benchmark survey conducted by Office of Business Economics, presenting statistics of multinational capital flows, earnings and income. (Comparable data for 1970 due for release in 1972).

U.S. Department of Commerce - "The Multinational Corporation - Studies on U.S. Foreign Investment" Vol. I, March, 1972, 75 pp., $1.75, Government Printing Office. Incorporates: "Policy Aspects of Foreign Investment by U.S. Multinational Corporations," Part I), January, 1972; "U.S. Multinational Enterprises and the U.S. Economy," (Part II), nine case studies, summary by Professor Stobaugh, Harvard Business School, January, 1972; "Trends in Direct Investments Abroad by U.S. Multinational Corporations 1960 to 1970," (Part III), February, 1972. Bureau of Economic Analysis, "Special Survey of U.S. Multinational Companies, 1970," a supplement to the Survey of Current Business, BEA-SUP 72-03, November, 1972, 100 pp., $3 order from: National Technical Information Service, U.S. Department of Commerce, Springfield, Virginia, 22151. This report presents data for 1966 and 1970 on the financial and economic activities of 298 U.S. multinational companies and their 5,200 majority-owned foreign affiliates.

Federal Reserve Board - "Imports and Economic Welfare in the U.S.," paper presented by Andrew F. Brimmer before the Foreign Policy Association, February 16, 1972.

Federal Reserve Bank of New York - "Impact of Direct Investment Abroad by United States Multinational Companies on the Balance of Payments," by Susan B. Foster, Monthly Review, July, 1972.

U.S. Department of State - "The Employment Effects of the Quota Provisions of the Burke-Hartke Bill" by John C. Renner, Director, Office of International Trade, April, 1972.

foreign competition in foreign markets which they could not meet successfully from the U.S. Still others have invested abroad to establish distributional and processing facilities to handle exports from the U.S., thereby establishing a local presence in foreign markets necessary for and stimulating exports of products made in this country. The generic title--"multinational corporation"--obscures these many differences and the often profoundly different consequences on the U.S. economy these different reasons for foreign investment produce. Sweeping changes in tax treatment of these activities based not only on an analysis that available evidence indicates is inaccurate but that is also grossly over-simplified could result in seriously adverse and unintended consequences on U.S. employment, foreign exchange earnings, availability of raw materials and development of export markets. Very simply, the forces knitting these many activities together are a good deal more complex than is recognized by advocates of simplistic tax changes.

COMPLEXITY OF THE INTERNATIONALIZATION OF THE MARKET ECONOMY

One of the most sophisticated and comprehensive analyses of these inter-relationships can be found in the U.S. Tariff Commission study entitled, "Competitiveness of U.S. Industries." Some of the major conclusions of that study bear repeating.

I. Source of U.S. International Competitiveness. In the first place, the Tariff Commission study indicates that the recovery of the Japanese and European economies and the growth of world markets made increasingly accessible by a progressive reduction in barriers to trade have made economies of scale generally prevalent in many countries and no longer the exclusive province of the U.S. with its rich domestic market. But that rich domestic market encourages other developments--like innovations, product differentiation and higher inputs of skilled labor and "human capital"--that do serve to enhance American competitiveness:

> The enjoyment of economies of scale is apparently a necessary but not sufficient condition for the generation of a comparative advantage in international trade. Older industries, with older and less diversified product lines, less advanced technology, and less opportunity to employ highly skilled labor find the presence of scale economies in the domestic market to be of little benefit in foreign markets and in the struggle against competing imports at home. On the other hand, the more dynamic industries, which produce highly differentiated lines of new products, using advanced technologies and heavy inputs of skilled labor or "human capital," are those which, on the basis of the evidence examined here, are in the best position to take advantage of scale economies to compete successfully against foreign producers, both at home and abroad. 1/

In other words, a U.S. policy toward trade and investment which seeks to protect older industries that have failed to innovate in products, technologies and use of skilled labor at the expense of dynamic, new industries with new and differentiated product lines reflecting new technologies and high concentrations of "human capital" would be to pursue a policy directly counter to the economic strengths of the United States. Burke-Hartke--which seeks to roll back imports to 1965-69 levels, puts a lid on technology exports and restrains capital outflows--courts retaliation against our exports from dynamic industries--including agriculture--and retaliation against our technology and investment policies through foreign nations withholding technology and capital from the U.S. Based on the

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1/ COMPETITIVENESS OF U.S. INDUSTRIES, United States Tariff Commission, Report to the President on Investigation No.332-65 Under Section 332 of the Tariff Act of 1930, TC Publication 473 (Washington, D.C., April, 1972), 158-59.

Tariff Commission's findings and conclusions, such a policy would be highly counter-productive to U.S. interests and U.S. strengths.

II. MNCs and Imports. Proponents of Burke-Hartke have also sought to generalize from isolated instances where U.S. manufacturers have moved facilities abroad in order to produce for the U.S. market--notably, consumer electronics--to the general proposition that foreign direct investments stimulate imports from subsidiaries of U.S. companies into the U.S. Is this a valid generalization?

Evidence assembled by the Tariff Commission suggests not only that it is invalid but that the reverse--imports from subsidiaries into the U.S. are a declining share of total U.S. imports--is more likely true:

> On balance, the evidence on foreign investment and trade performance of the multinational firms presented in this section indicates that the operations of these companies had a favorable impact on U.S. foreign trade competitiveness. There appears to be a clear association between the intensity of foreign investment activity in the different branches of manufacturing and levels of investment at home. Furthermore, industries characterized by heavy overseas investment in productive facilities appear also to be those which not only contribute most heavily to U.S. exports but also have had the least impact on the upsurge of U.S. imports--with exactly the reverse results appearing for those industries in which strong foreign investment activity is not characteristic. 1/

In other words, three major conclusions of private studies of multinational corporations are confirmed by the Tariff Commission's analysis: (1) multinationals that are the most active investors abroad are also among the most active investors in the U.S. domestic economy; (2) foreign direct investments coorelate with the most rapid rates of increased exports from the U.S.; and (3) imports back into the U.S. from subsidiaries of U.S. multinational companies have lagged behind

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1/ Ibid., 190.

imports from non-affiliated, foreign-held companies, and, in fact, the greatest upsurge in imports into the U.S. seems to come precisely from those industries where foreign direct investments are not made. In other words, foreign direct investments manifest an outward competitive thrust _into_ world markets, not a thrust of competition back against U.S. domestic production.

III. Effects of Technology Flows. Finally, proponents of Burke-Hartke have argued that foreign direct investments and transfers of technology abroad erode American international competitiveness and have contributed to import competition in this country. The Tariff Commission's study suggests not only that this is not the case but that the opposite--transfers of technology abroad enhance U.S. exports--is more likely true. In the first place, the Tariff Commission notes, "the bulk of this flow [of American technology to foreign countries] is directed toward overseas subsidiaries of U.S. firms, so that control of the techniques and processes involved remain essentially in American hands." 1/ Furthermore, correlating technology flows with trade flows for Japan leads to a startling conclusion:

> The analysis suggests rather unusual conclusions, namely that Japanese acquisitions of technology--by country and by industry, as outlined in tables 33 and 34--are more strongly correlated with imports than with exports. The data suggest little or no tendency for country-sources of technology to "match-up" with country-destinations of goods made with that technology. Similarly, strong and statistically highly significant correlations exist between Japanese technology imports--of which the U.S. is the principle source--and U.S. exports of manufactured goods to Japan, by industry, while a similar association is not present for the comparable U.S. imports from Japan. 2/

1/ _Ibid._, 219.

2/ _Ibid._, 218.

While the complexity of these relationships and the limited study that has been made of them to date make conclusions tentative at this point, it is striking--and coincides with information available in individual multinational corporation statements as well as aggregational studies--that the Tariff Commission found no tendency for transfers of technology to lead to imports back into the country from which the technology came.

Moreover, flows of investment and technology move in both directions--both out of the U.S. and into it. For example, it is far from true that the U.S. has a monopoly on new technologies. Some of the most fundamental innovations in a number of primary industries in the U.S. have come from abroad--for example, the basic oxygen process for steel, the radial tire, the Wankel Rotary engine and a long list of innovations in the chemical industry. Moreover, as other nations catch-up with the U.S. in many fields of technology, they will have to depend to a greater extent than in the past on developing their own technologies. For example, Japan has been able to purchase technology that cost much more to develop than the $3.4 billion Japan has paid for access to that technology over the past ten years. Future Japanese plans show an intention to invest $13 billion in research and development by 1980, compared to $3 billion in 1970. 1/ The U.S. can hardly afford to deny itself access to this technology by clamping restrictions on transfer of its own technology.

IV. Foreign Investment in the U.S. Perhaps even more dramatic are the possibilities for increased direct investment in the U.S. by foreign-based multinational companies, especially under the more realistic exchange rates recently achieved.

1/ "The United States in the Changing World Economy," Peter Peterson, December 27, 1971, 65.

While U.S. investments abroad have increased more rapidly than foreign investments in the U.S. in the past, that trend may be changing. For example, "the growth rate of inflows of European direct investments increased to almost 13 per cent annually over the 1966-70 period from only 5 per cent annually during the 1959-66 period, whereas the rate of U.S. investment in Europe dropped to 12.7 per cent from a level of 17.1 per cent over the earlier period." 1/ The rate of increase in foreign direct investment in the U.S. has continued to accelerate, passing the $1 billion mark in 1972 and estimated to exceed $1.5 billion in 1973. 2/ In other words, flows of capital and technology across national boundaries are becoming increasingly a two-way street, and the U.S. could not limit its transfers of capital and technology abroad without seriously reducing the benefits it derives from similar flows back into the U.S.

SUMMARY: ANALYSIS OF TRADE AND INVESTMENT

Summarizing this analysis, the following conclusions emerge: (1) available evidence indicates that the decline in the U.S. trade balance arose not from an increased influx of imports but from a relatively poor export performance; (2) available evidence indicates that trade shifts are not a major factor producing aggregate unemployment, with the level of unemployment determined by fiscal and monetary policies, governmental spending and demand shifts; (3) in the aggregate, multinational corporations make a positive contribution to domestic employment,

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1/ "The Silent Invasion," Stefan H. Robock, World, Vol.2, No.2 (January 16, 1973), 27.

2/ "Foreign Investors Expected to Pump Over $1.5 Billion into U.S. Economy," Journal of Commerce, January 15, 1973.

growth in domestic manufacturing, growth in exports and improved balance-of-payments; (4) foreign direct investment and transfers of technology correlate with a strong competitive position for the U.S. in international markets and do not correlate with increased imports, which come mainly from industries where technology and capital transfers have been least intense; and (5) the proposals embodied in Burke-Hartke run directly counter to America's greatest strengths in international competition while jeopardizing healthy flows of investment and technology into the U.S.

EMPLOYMENT CONSEQUENCES OF TRADE AND INVESTMENT POLICIES

I. Two Questions. A central--and rightly so--concern in any discussion of trade and investment policies must be their employment consequences. This concern can be separated into two complementary questions: first, for those who secure employment as a result of trade and investment policies, are they better off under outward- or inward-looking policies? secondly, for those whose jobs would be threatened either by trade shifts or import-substitution, are their interests better served by outward- or inward-looking policies?

II. Employment and Welfare Consequences. Turning to the first question, those who have investigated whether the same volume of exports produces more or less employment than the same volume of import-substituting production have concluded that more employment would be generated by export promotion. For example, as Krause and Mathieson point out, ". . . it should be remembered that U.S. exports are labor-intensive relative to U.S. imports, as Leontief established and others subsequently confirmed." 1/ One of the studies confirming this conclusion was

1/ "How Much?", op. cit., 421.

an examination by Professor Anne O. Kreuger of the employment effects of exports versus import-substitution for a number of major American industries. Comparing direct and indirect employment effects arising from demand for exports with direct and indirect employment effects of replacing U.S. imports with domestic production (and assuming that the latter alternative would not shift costs up and consumer demand down, which is, as she says, an "extreme assumption", since imports replace domestic production frequently because they have a cost advantage), she found that for the industries she studied, import substitution would decrease total employment by approximately 150,000 or 15 percent. 1/ Very simply, promoting exports builds U.S. jobs more efficiently than artificially replacing imports with domestic production.

At the same time, export promotion builds better job opportunities. This is clear from a comparison of levels of well-being in export-oriented industries and industries facing import competition. Professor Krueger's analysis of these welfare consequences in a number of major industries affected by trade flows--both exports and imports--points to some striking conclusions. First, the wage range for industries where employment would be increased by import quotas had a much higher concentration of wages at the lower end of the scale than for industries where employment would be increased by equivalent degrees of export expansion. Secondly, the industries where employment would decline as a result of protectionist measures had an unweighted average annual wage in 1967 approximately 127 percent of the unweighted average annual wage for industries where

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1/ "Quotas on American Imports Would Reduce Employment in American Industry," Anne O. Kreuger, Congressional Record, Vol.117, No.178 (November 19, 1971), H-11331 ff.

employment might be increased by quotas ($6,758 as compared with $5,335). 1/ In other words, a policy to protect employment in industries facing increasing competition from imports not only would have adverse consequences on total employment in trade-related production but would also protect lower-wage jobs at the expense of higher-wage jobs, a distributional consequence that can hardly be supported as good public policy for the American working man.

III. Adjustment Policies. The second question touches on a difficult economic and human problem. It is little consolation to the worker who loses his job because of imports to know that an outward-looking trade policy produces more and better job opportunities for the economy as a whole. The positive over-all employment benefits of a liberal trade policy do come at some cost to certain individuals, and typically those costs are concentrated in certain industries and geographical areas. Import penetration has been fairly rapid in several industries:

> For example, 9 out of 10 radios made abroad; 1 out of every 6 new cars made abroad; 7 out of 10 sweaters; 19 out of 20 motorcycles; 9 out of 10 baseball gloves. . .
>
> We import 100 percent of our 35mm. cameras, all of them. We import 96 percent of our magnetic tape recorders. We import 70 percent of our portable typewriters and more than 50 percent of our black and white television sets. 2/

This has reduced employment in several industrial sectors:

> For example, employment of production workers in the consumer home entertainment electronics industry has declined from 128,600 to 96,600 since 1966 as imports continue to rise. Twenty-four thousand production jobs have been eliminated from the footwear industry since 1966. 3/

1/ "Quotas on American Imports," op. cit., H-11331.

2/ "Foreign Economic Policy in the Seventies," seminar before the House Republican Task Force on International Economic Policy, Congressional Record, August 10, 1972, H-7548.

3/ NEEDED: A CONSTRUCTIVE FOREIGN TRADE POLICY, A Special Study Commissioned and Published by the Industrial Union Department, AFL-CIO, October, 1971, Prepared by Stanley H. Ruttenberg & Associates, 62.

These are striking figures. They manifest one of the consequences of comparative advantage--that some industries face growing import competition while others expand exports.

IV. Adjustment in a Larger Context. These figures define a specific problem that needs to be addressed. What policy solutions would be most effective, however, remain unclear unless this employment displacement is set in its larger context. For example, the increasing share of consumer home electronics consumption going to imports testifies to the lower prices of imported as compared to domestic products in that category. This means that more U.S. consumers can afford to own radios, tape recorders and television sets, a benefit of trade that should not be ignored. The growth in imports of automobiles has not only made new cars available to more income groups; it also reflects a shift in consumer preferences for smaller, more economical vehicles. This has widened the range of consumer choice, prompting Detroit to make a more concerted effort to offer the American consumer the kind of car he wants.

On the employment side, while imports have undoubtedly contributed to declining employment in certain industries, this is not the entire story. In the first place, some of this employment decline undoubtedly stems from internal factors--shifts in consumer preferences, failure to keep pace with technological change, failure to invest in modernizing plants and the like. Moreover, it would be misleading to identify these employment declines with people thrown out of work. Many of these declines may reflect voluntary withdrawals from the labor market--through retirement, starting a family, etc.--with the employer simply not filling the vacancy. In addition, not enough is known about what does happen to workers who leave one industry.

The relationship between movement of workers between jobs and the movement of individuals into and out of the active labor force is highly complex. For example, it can often be difficult to distinguish between a worker in either of these categories who loses a job, cannot find another one and therefore involuntarily withdraws from the work force and the worker who quits a job or loses one when he or she is relatively indifferent about continuing to work, does not actively seek new employment and therefore voluntarily withdraws from the work force. The welfare consequences of voluntary withdrawal from the work force by a casual worker or an individual working to supplement family income are distinctly different from the case where a family involuntarily loses its primary source of income because of unemployment.

Concerning this latter and more significant problem, however, several observations can be made. In the first place, a job lost because of a structural shift in employment--whether arising from changes in governmental spending, consumer demand shifts, new technologies or import displacement--occurs only once. In other words, the important employment consequence is not the aggregate numbers of jobs displaced over a period of many years but the incidence of necessary employment adjustment occurring in any one year. The most reasonable estimate of this once-and-for-all job displacement each year as a result of trade shifts places the number of worker dislocations annually between 40,000 and 60,000--a quite insignificant amount in relation either to the annual expansion of the labor force or aggregate unemployment levels (both of which run into millions). 1/ Consequently, in any one year only a small proportion of the work force needs to seek alternative employment because of job dislocations associated with trade shifts.

1/ "Job Displacement and the Multinational Firm: A Methodological Review," by Professor Robert G. Hawkins, NYU Graduate School of Business Administration, Center for Multinational Studies, Occasional Paper No.3, Washington, D.C., June 1972.

Secondly, the job mobility necessitated even by this relatively small displacement is part of a much broader phenomenon of labor mobility characteristic of the American work force. For example, a recent study of Ford blue-collar workers showed that 28 percent had been on their job less than 3 years and fully one-half for less than 7 years. 1/ In other words, the general rapidity of job turnover characteristic of the American economy would help compensate for many trade-related job displacements.

Finally, a further characteristic of this highly mobile labor force is that unemployment tends to be a temporary rather than a permanent phenomenon. For example, even in 1971--a period of relatively high aggregate unemployment--only about one-tenth of the jobless remained unemployed more than 26 weeks. 2/ In other words, while unemployment is always a serious burden for the families involved, the actual level of job displacement associated with trade shifts is only a minimal portion of the more general pattern of transition between jobs characteristic of America's fluid economy.

V. Shifts to Export-related Employment. In a healthy economy--with balanced fiscal and monetary policies aimed at full employment--displaced workers would be likely to find employment in other economic sectors, perhaps at higher wages. Just one example is provided by the following article:

> Political and labor leaders frequently complain about jobs being wiped out by imports. And this is a problem of serious dimensions.
>
> In Pittsburgh, the trouble centers around steel, which has poured into the United States from foreign mills. Undoubtedly

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1/ Statement of Douglas A. Fraser, Vice-President, UAW, before the Subcommittee on Foreign Affairs, Hearings on Trade Adjustment Assistance, May 17, 1972, 328.

the toll in steelworker's jobs has been high.

> Sometimes overlooked is the fact that the four-county Pittsburgh area is a big exporter of all kinds of products. An estimated 20,000 district jobs owe their existence to exporting. 1/

In other words, even within one geographical area, the fact that employment growth in one industry is inhibited by import competition is not the end of the story; many workers may be finding jobs in other economic sectors, including exports made possible by a growing two-way flow of trade.

VI. Indirect Employment Effects of Trade. Finally, the impact of trade upon production is frequently more complex than acknowledged in another respect. For example, as spokesmen for Caterpillar have pointed out, exports of their products--which have been rising dramatically--represent an indirect export of steel produced in the U.S. Similarly, one estimate suggests that 29 cents of every dollar of feed grain exports from the U.S. represents expenditures for machinery, fuel and oil within the U.S. As a result, a sizable portion of domestic steel sales or of domestic farm implement sales were, in fact, export sales. In the latter case, the American farmer converted domestically produced and marketed steel and machinery inputs through his efforts into feed grain exports. Such examples demonstrate that the employment consequences of trade are multifaceted and complex, with generalizations derived from very simplified analyses of structural shifts within the American economy running a serious risk of producing counter-productive policy conclusions.

1/ "Twenty Thousand Jobs in Pittsburgh Area Created by Exports," Article by William H. Wylie, introduced into Congressional Record of January 11, 1973, by Hon. Richard S. Schweiker, E-118.

VII. American Industrial Base. Nor is there any indication that imports are eroding the American industrial base as a whole. Between 1961 and 1971, for example, unadjusted manufacturing sales climbed from $356 billion per year to $750 billion per year. At the same time, business expenditures for new plants and equipment doubled.

VIII. Burdens of Adjustment. This is not to say that problems of adjusting to import competition are not real, nor that they do not impose serious economic and human burdens on those who are temporarily dislocated by structural shifts in the economy. Rising insecurity for certain elements in the labor force, loss of seniority and pension rights, loss of health and life insurance coverage, collapse of one-industry communities and the tax base needed to support necessary social services like education, police and fire protection, sanitation and the other services which make up an important component of the high standard of living enjoyed by Americans--in other words, the burdens placed upon those who bear the major costs of adjustment in the economy do deserve high public policy attention. One might add that these concerns are matters of public policy whether they arise from trade flows, changes in governmental spending policies, shifts in consumer preferences, recession in the economy, erosion of fixed incomes by inflation or any of the other factors that limit access to important social services for specific segments of the population.

In other words, worker dislocations arising from increased imports are part of a more general pattern of unemployment causation characteristic of a free, open economy. No one would suggest that this general pattern of unemployment causation should be attacked by freezing workers in present jobs regardless of governmental or private spending patterns or competitive realities in the marketplace. Yet, it is no more sensible to freeze present jobs in industries facing stiff import competition by shutting off the reality of that competition.

IX. A Positive Manpower Adjustment Program. In coping with general patterns of unemployment, we recognize the necessity of adjustment while attempting to guide that adjustment and ease its burdens through the tools of monetary and fiscal policy supported by effective manpower programs. Similarly, effective solutions to trade-related unemployment will not come from stopping the adjustment process. Rather, meaningful long-term solutions to this problem will only come from planning necessary adjustments in a rational manner, controlling its pace when shifts come too quickly to be easily absorbed and providing a solid manpower adjustment, relocation and retraining program designed to move workers and communities toward more secure and higher-paying employment patterns.

Provisions of the Trade Reform Act of 1973 and accompanying pension and unemployment legislation are designed to respond to this problem with these kinds of initiatives. Title II outlines the major instruments of such a positive approach. It provides for authorizations of adjustment assistance to workers; it provides for temporary safeguards designed to slow down the pace of import penetration for a limited period of time while industries and workers seek adjustments enabling them to compete effectively in the same product lines or move to new lines with more promising competitive prospects. This approach strikes a balance between the two crucial demands of such a situation--on the one hand, the demand to adjust to new circumstances and on the other to provide the opportunity to adjust smoothly and with a minimum of displacement. If this approach is subject to any criticism, it is not that it is inappropriate or incorrect but simply that it may not go far enough in providing the individual maintenance, retraining and relocation benefits needed to make this investment in the nation's future competitiveness and well-being as profitable as it could be.

THE PUBLIC POLICY CHOICE

I. Social Costs and Compensation. Analysis of available evidence bearing on the debate over the best direction for future U.S. trade and investment policies has already suggested that an inward-looking trade policy is not an effective public policy tool for improving over-all employment levels. Nor is it a means to build a gradual improvement in over-all worker well-being. Indeed, it is a policy prescription that would make these vital national objectives more difficult to achieve. Beyond that, restrictive American trade policies would introduce further distortions into the U.S. economy with serious implications for the well-being of the society as a whole and for individual elements within it. And--of major importance in formulating public policies--while the temporary burdens of outward-looking trade measures can be eased or compensated for, the economic burdens of restrictive trade policies not only tend to persist over time but also to resist any form of meaningful policy adjustment or compensation. A review of some of the more serious costs of restrictive trade policies here and abroad bears this out.

II. Retaliation. In the first place, raising barriers on U.S. imports would very likely provoke massive retaliation by our trading partners, since our imports are their exports. Taking agriculture as just one example, the results would be devastating and widespread. Agriculture represents one of America's most dynamic, export-oriented industries. Exports have increased from $5.7 billion in 1968-69 to an estimated $11.1 billion in 1972-73. Because of tariff bindings under the GATT, other countries cannot raise barriers to agricultural imports without paying compensation to the U.S. Unilaterally increasing American trade barriers without offering compensation to our trading partners would free those countries from such a constraint. Experience indicates they would respond quickly. 1/

For example, Sicco Mansholt--the man most responsible for the Common Agricultural Policy of the European Community--proposed in 1969 a "consumption" tax of $60 per ton on oilseeds and $30 per metric ton on oil cake and meal. If such a proposal were enacted, it would seriously jeopardize U.S. oilseed and oilseed product exports to the Community, which grew from $212 million in 1959-60 to $854.2 million in 1971-72. Obviously, retaliation of this kind would seriously damage the rural farming community in the U.S. But it would also seriously undermine the economies of many states which have a sizable agricultural base. For example, "one of every four jobs [in Minnesota] is in farming or business actively closely related to agriculture." 2/ In addition, employment in industries producing inputs for American farming or in handling the production of America's farms as these products move into export would be seriously cut back. Finally, agriculture's positive contribution to the balance-of-payments--estimated at $3.5 billion for 1972-73--would be dramatically reduced. Similar consequences would follow retaliation against other major U.S. export industries, not only harming individuals in those industries but

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1/ The New York Times, for example, reported that, in conversations between American and European businessmen, the "Europeans apparently left no doubt that their governments would be forced to retaliate if protectionist quotas on imports as envisaged in Burke-Hartke, were enacted." (March 3, 1972), p.1.

2/ "Serving Minnesota's Citizens," Institute of Agriculture, University of Minnesota, (December, 1972), 4. While 178,000 of these jobs are directly in farming, a further 56,000 jobs are tied to producing inputs for farmers and 206,000 jobs are involved in processing, handling, and transporting agricultural commodities.

also in the surrounding economy of the area and in sectors of the economy serving those industries. Finally, the costs of retaliation against our exports cumulate over time. Export markets remain foreclosed for as long as retaliatory barriers remain in place.

III. Foregone Export Growth. Beyond this retaliation against current levels of U.S. exports, there would be the additional burden of foregone growth in future exports. Taking agriculture again as an example, exports have grown more than 90 percent over the past four years. With per capita meat consumption in the European Community only 60 percent of U.S. levels, less than 50 percent of U.S. levels in Russia and Eastern Europe and only about one-eighth of U.S. levels in Japan, the potential for future growth in exports of grains for food and feed, oilseeds and oilseed products and livestock products is dramatic. Trade, however, is a two-way street, and policies which restrict growth in one direction necessarily will restrict growth in the other. This strikes directly at the interests of our most dynamic, export-oriented industries, which, as Kreuger's analysis indicated, pay higher wages than those industries benefitted by import restraints. Very simply, in practical terms--including continuing improvement in American wage standards and worker well-being--the U.S. cannot afford to wall itself off from the rest of the world. And, once again, to be forced to a lower export growth curve represents costs to the American economy that mount rapidly over time.

An indication of how the costs of barriers to U.S. exports cumulate over time is given in a recent study by Stephen Magee. He has estimated the annual cost to the U.S. of foreign restrictions on U.S. exports at between $4.3 and $5.5 billion. Since these costs recur year after year, however, the present discounted cost to the U.S. of this cumulative loss of foreign markets is in excess of $136 billion. 1/

1/ "The Welfare Effects of Restrictions on U.S. Trade," Stephen P. Magee, in Brookings Papers on Economic Activity: 3 (1972), The Brookings Institution (Washington, D.C.), 699-701.

IV. Financing Anticipated Increased Import Needs. An expansion of U.S. exports is also an important public policy objective for another reason. The recent emergence of an energy crisis in this country has demonstrated that by 1980 the U.S. may have to import between $15 and $21 billion of energy materials, compared to about $4 billion today. Similar increases in other raw material imports will be necessary as domestic supplies are depleted. A trade policy designed to expand U.S. exports will be the only means of financing these future import needs while avoiding an unacceptable trade deficit.

V. Benefits of Imports to Consumers. Moreover, imports offer substantial benefits to U.S. consumers, giving them products at lower prices and greater choice among products. Estimates place the current cost of present U.S. trade barriers at $10 to $15 billion annually. Moreover, these costs to consumers in the form of higher prices and less real buying power also cumulate over time. As a result, the present costs of barriers distorting trade flows come to exceed substantially the actual dollar value for the current year. More broadly, imports can serve as an important hedge against inflation. Trade barriers, on the other hand, increase the costs of inputs and the final prices of manufactured items. This, in turn, leads to higher wage demands, with a consequent wage-price spiral that shifts costs up in the U.S. without improving real incomes and actually reducing the purchasing power of people living on fixed incomes. In addition, a two-way flow of goods, capital and technology heightens competition, stimulates cost-cutting economies and prompts a search for more efficient technologies and more attractive products and services. For many of America's largest and most concentrated industries, the impetus for this kind of responsiveness to consumer interests comes primarily from import competition.

Finally, any attempt to fix patterns of production and trade on some historical basis, while it may reduce the burdens on some to adjust to new occupations, also retards flexibility and improved resource allocation--both in the United States and abroad. With less efficient resource allocation, real standards of living for all peoples will not improve as rapidly. In the United States, such a policy would retard movement of the economy toward those areas where it has a relative competitive advantage--new, highly differentiated product lines requiring heavier inputs of skilled labor ("human capital"). The results would be serious: an accelerated deterioration in America's international competitiveness, less real income here and abroad, reduced opportunity for less-developed countries to improve their well-being by serving the market demands of developed nations and a foreign policy reflecting an increasingly isolationist, autarkic and nationalistic mood rather than growing international cooperation and mutual interdependence. The lessons of the Smoot-Hawley tariff and the decline in well-being, accompanied by a rise in nationalistic animosities, characteristic of the 1930s should not be lost on present-day policy-makers.

VI. Costs to Society Over-all. The magnitude of the potential gains or losses which are likely to follow from the public policy choice between an outward-looking trade and investment policy along the lines of the Trade Reform Act of 1973 and an inward-looking policy along the lines of Burke-Hartke cannot be understated. For example, the annual total costs of the trade restrictions the President seeks authority to attack have been estimated by Magee at an average of \$7.5 to \$10.5 billion, with a present value of their cumulative impact put at a staggering \$258 billion. Instead of providing a means of reducing these costs, Burke-Hartke would double the annual costs to $14 to $21 billion, with a present value of their cumulative impact set at $387 billion. 1/ Moreover, as Bergsten notes, these quantitative estimates grossly underestimate the final economic costs to the nation:

> I would like to stress and discuss further Magee's own warning that the gains of free trade calculated in the paper grossly underestimate the actual gains to the United States. As Magee mentioned, three major elements are omitted in his analysis--dynamic effects, economies of scale, and monopoly effects. These may provide very large additional benefits that should be added to the overall estimate of the potential gains from free trade. 2/

In other words, more efficient resource allocations stimulated by free trade in turn trigger further competition, innovation and economies that can multiply the initial gains. Finally, not open to even imprecise measurement but of undeniable significance is the contribution outward-looking economic policies can make to America's over-all foreign policy objectives. These implications were perhaps most poignantly expressed in the President's Trade Message to Congress:

> The magnitude and pace of economic change confronts us today with policy questions of immense and immediate significance. Change can mean increased disruption and suffering, or it can mean increased well-being. It can bring new forms of deprivation and discrimination, or it can bring wider sharing of the benefits of progress. It can mean conflict between men and nations, or it can mean growing opportunities for fair and peaceful competition in which all parties can ultimately gain.

The United States has major economic differences to resolve with her principal trading partners, the same countries who constitute our principal allies in building a mature structure of peace. The United States has major economic and humanitarian

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1/ "The Welfare Effects," op. cit., 701.

2/ "The Welfare Effects: Comments and Discussion," C. Fred Bergsten, op. cit., 702.

commitments to less-developed nations to meet, many of which countries remain to be incorporated in an international structure of peaceful cooperation and development. These foreign policy challenges cannot be met by turning inward; they will require American foreign economic policies providing multilateral consultation, negotiation and resolution.

VII. Costs of Restrictive Policies Not Compensable. In summary, a restrictive American trade policy would not respond to the real concerns of those who are temporarily harmed by shifting competitive advantages and flows of trade. While leaving these problems unresolved--merely frozen in their present form--it shifts burdens forward and imposes substantial inequities on the most dynamic, export-oriented sectors of our economy. It undermines the movement toward more efficient resource allocation which has historically been the foundation not only for improved real incomes and well-being in this country and abroad but also the cornerstone of America's competitive position in the world economy. It would exact a terrific price from consumers--reduced choices, higher prices, greater inflationary pressures and, as the recent energy crisis has demonstrated, inadequate supplies. Finally, given the magnitude and the nature of these economic, social and political costs of a restrictive, inward-looking trade policy, it would be impossible to devise and implement public policies to compensate those injured. How does one compensate consumers for higher prices? workers for foregone job opportunities in higher-wage industries? farmers and those who depend upon agriculture for their livelihood for markets lost by retaliation and foregone export growth? all of society for a less efficient allocation of resources, for cost and wage pressures fanning the flames of inflation, for a lower rate of improvement in real incomes and real standards of living and for a less competitive position internationally? the public at large for reduced choice, less competition, less innovation and heightened nationalistic animosities instead of a more cooperative, more peaceful, more prosperous world?

TRADE REFORM ACT OF 1973

I. Relationship to Over-all U.S. Foreign Policy. The world is becoming increasingly interdependent. To cope with problems in these new circumstances will require cooperation and consultation among the nations affected. As the President noted in his Trade Message to Congress, this realization has already begun to yield fruitful results in the political arena, and it is now time to undertake the same kind of progressive initiative in international economic policies:

> The world is embarked today on a profound and historic movement away from confrontation and toward negotiation in resolving international differences. . . We have thus begun to erect a durable structure of peace in the world from which all nations can benefit and in which all nations have a stake.
>
> This structure of peace cannot be strong, however, unless it encompasses international economic affairs. Our progress toward peace and stability can be significantly undermined by economic conflicts which breed political tensions and weaken security ties. . .
>
> My trade reform proposals would equip us to meet this challenge. They would help us in creating a new economic order which both reflects and reinforces the progress we have made in political affairs.

The changes that have occurred in world economic relations must be incorporated into new multilateral rules and understandings if they are not to become ever more serious irritants. Therefore, a coherent foreign economic policy building opportunities for consultation and negotiation is both a logical and a necessary extension of American foreign policy initiatives of recent years.

II. Response to International Economic Challenges. Moreover, as the preceding analysis has indicated, many of the stresses that have been felt in recent years in trade-related sectors of the American economy have their origin in international circumstances. Prolonged currency imbalances and excessive exchange rate rigidities were a major cause of our declining balance-of-payments. Trade barriers which prevented flows of goods between nations along lines of comparative advantage aggravated such distortions. And lack of clear international understandings on how individual countries could and should cope with trade and investment problems unnecessarily impeded responsible actions. Consequently, an outward-looking U.S. trade policy is needed not only as one element in our over-all foreign policy but also as a tool with which to redress problems originating in the inadequacies of current international rules and understandings.

III. Authorities and Checks. The Trade Reform Act of 1973 provides the Executive the appropriate measure of authority for participating fully with our trading partners and foreign allies in this consultative effort. Subject to appropriate pre-negotiation procedures, the President would be authorized to change U.S. tariffs in the context of trade agreements. He would also have authority, subject to review and disapproval by Congress, to attack the difficult and complex subject of non-tariff barriers with the same kinds of authorities possessed by representatives of other major nations. Recognizing that even fair international competition can present difficult temporary problems of adjustment, the President would have authorities to manage the pace of adjustment. Furthermore, such authorities are designed to be consistent with possible multilateral agreements on appropriate adjustment procedures. Presidential authority to respond promptly--and with a view to our international obligations--to unfair competition is clarified, and trading partners are put on notice that unjustifiable or unreasonable trade restricting measures that impair U.S. exports cannot be countenanced.

The Trade Reform Act also establishes Presidential authorities needed to deal with the vital and complex interrelationship between monetary and trade policies. These authorities will permit the U.S. better to deal with its own adjustment problems while, at the same time, participating in the creation and implementation of an effective set of international rules governing monetary relationships. As an important adjunct to such efforts, the President is given limited authority to use trading tools as a means to compensate other nations for tariff changes the U.S. finds necessary to make and to help bring under control domestic inflation.

This proposal would allow the President, subject to review and disapproval by Congress, to extend most-favored-nation tariff treatment to countries not now receiving such treatment, when this would serve national interests. It would also permit the U.S. to participate in efforts of developed countries to extend a temporary system of trade preferences to developing nations, provided that recipient countries are not involved in trade policies which discriminate against the U.S. in favor of other developed countries.

Obviously, these authorities are extensive. They grant to the President authority to undertake important international initiatives necessary to assume a full and equal role in reforming international economic relations. This is an important aspect of an over-all U.S. foreign policy. Moreover, the lack of such authorities over the past five years--during which our trade balance rapidly deteriorated while the dollar remained over-valued well past the time when needed adjustment was clearly signalled--indicates the necessity of providing adequate authorities for dealing with such economic problems now. Finally, Presidential

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authority to undertake international economic initiatives is also encompassed within responsible checks--the purposes of the Act, U.S. international obligations and, ultimately, review by Congress. Given the importance of meeting our major trading partners with equal authority; given the complex interrelationships among trade, investment and monetary relations; and given the challenge of dealing with both tariff and non-tariff barriers in a manner that makes clear that agricultural trade problems cannot be separated from industrial concerns, this balance between executive initiative and legislative checks offers an opportunity to:

> move our country and our world away from trade confrontation and toward trade negotiation, away from a period in which trade has been a source of international and domestic friction and into a new era in which trade among nations helps us to build a peaceful, more prosperous world.

AGRICULTURE

A NATIONAL PRIORITY: SUCCESSFUL AGRICULTURAL TRADE NEGOTIATIONS

The importance of successful agricultural trade negotiations can be expressed quite simply. First, agriculture remains the largest industry in the United States, with over 3 million people directly employed in farming and many millions more employed to provide manufactured inputs and services to farmers and to market agricultural products here and abroad. Secondly, foreign markets represent the most rapidly growing outlet for U.S. farmers, with U.S. agricultural exports up 94 percent in only four years and with world trade in feed grains and oilseeds expanding at a compound rate of nearly 10 percent per year. Finally, agricultural trade is one area where barriers and distortions around the world fall especially hard upon the U.S. Foreign barriers to U.S. farm product exports cost this country $4 to $5 billion in foregone sales per year--more than 10 times the cost to the U.S. of restrictions on manufactured exports. The present discounted value of this cumulative loss of agricultural exports has been put at $125 billion. 1/ In other words, there may be no other single area of trade than agriculture where international reform and liberalization could have a more immediate, positive impact on U.S. balance-of-payments, production and employment.

Equally, there may perhaps be no other single area of the economy than agriculture which would be more seriously hurt by restrictive trade policies. Retaliation by our trading partners would fall heavily upon farm-product exports. Reduced marketings would cut back farm income and force retirement of some of the 70 million acres now used to meet export demand--either through expensive land retirement

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1/ "The Welfare Effects," op. cit., 699-701.

programs costing $60 to $70 per acre or through forcing many farmers off the land and many rural communities virtually into bankruptcy. With farm and rural incomes already lagging behind incomes in urban areas, the nation can hardly afford these added economic and human costs. Finally, farmers would also be squeezed between rising input costs prompted by the inflationary pressures triggered by import restrictions and declining final product prices brought on by temporary surpluses. In the short run, collapse of net farm income would drive many from rural areas into crowded urban centers, adding to mounting social and welfare costs. In the long run, with higher production costs and less production marketed, per unit food costs would have to increase, adding higher consumer bills to increased taxpayer burdens. At the same time, with resources allocated less efficiently, the entire nation would suffer a lower real standard of living than possible if the U.S. is able to use its rich agricultural resources to their fullest.

Consequently, there is perhaps no single group of workers in America with a more direct, pocketbook interest in seeing the U.S. adopt outward-looking trade policies than farmers and those who serve them. At the same time, there may be no other product area than agriculture where the entire nation--as consumers and as taxpayers--stands to gain more from trade reform and liberalization. While this case for liberalizing international agricultural trade is becoming increasingly well understood in Congress, in the White House and across the nation, it may be useful briefly to summarize and document its principal reasons.

I. America's Comparative Advantage in Agriculture. The United States enjoys a virtually unparalleled combination of rich soils, favorable weather and diffused growing area. These, in themselves, would suggest that the U.S. has a natural comparative advantage in production of field crops like wheat, soybeans and feed grains. But, in addition, the entire agricultural industry--implement manufacturers, seed companies, fertilizer producers, farmers, handlers, processors and exporters--have invested heavily in developing and implementing the most modern technologies. This fact has been recognized in the most recent Tariff Commission study, which identified agriculture as one of America's truly high technology industries. 1/ As a result, productivity in agriculture has been increasing at 2-1/2 times the rate for manufacturing over the past few decades, with many farm products selling for about the same prices as they were twenty years ago, in spite of rising costs.

II. Market-Oriented Farm Policies. Over the past decade, these advantages of nature and technology have been augmented by movement toward market-oriented policies in our domestic farm programs. In the early 1960s, income support operations in agriculture were largely separated from product pricing, with price support levels being reduced to world market levels. As a result, prices were allowed to move more freely in response to supply and demand forces in the marketplace. At the same time, programs like P.L.480 helped to reduce the large surpluses that had accumulated during the 1950s while providing assistance to many developing countries, some of which--like South Korea, India and Taiwan--have now become healthy commercial customers for U.S. agricultural exports.

The Agricultural Act of 1970 added further flexibility to these programs. It permitted farmers who met minimum set-aside provisions to plant whatever crops they felt would be most profitable on their remaining acreage. Last year, 95 percent of all American farmers participated in this program. Capitalizing on its flexibility,

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1/ Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor, Report to the Committee on Finance of the U.S. Senate and its Subcommittee on International Trade on Investigation No.332-69 (February, 1973), 570.

they shifted 70 million acres from old cropping patterns dictated by allotment and bases into more efficient and profitable patterns. This has resulted in major shifts of crops among farms and among regions, greatly improving the efficiency of resource allocation within farming and further enhancing U.S. competitiveness in world markets.

This past year has also witnessed some other major developments. U.S. agricultural exports should reach $11.1 billion this fiscal year, about a 40 percent increase over last year. Approximately half of this $3 billion increase will go to essentially new customers in Eastern Europe and China, with Russia taking by far the largest share. To a substantial extent, these increased farm-product exports were prompted by widespread adverse weather and growing conditions in these countries and in several major exporting nations. But, as will be discussed in more detail in a moment, there appear to be fundamental changes in world food demand that suggest promising long-term export prospects in these and other foreign markets.

This tremendous surge in U.S. agricultural exports has produced a number of consequences of major importance for the future of world agricultural trade. First, food and feed surpluses in the U.S. and elsewhere have been greatly depleted if not exhausted. This provides the United States with the opportunity to move away from an expensive land reserves program to a strategic commodity reserves program for wheat, feed grains and oilseeds, as advocated, for example, by the National Grain & Feed Association and many others. Such a policy would give the U.S. farmer a crucial market development tool with which to capitalize further on expanding world commercial demand for foods and feeds while gradually reducing the taxpayer costs of land retirement and other farm programs. Secondly, the U.S. has currently stopped paying subsidies on farm product exports. Under these circumstances and with strong world food and feed demand expected to continue, we have an excellent opportunity through agricultural trade negotiations to secure agreement from all nations to stop subsidizing artificially the costs of surplus disposal, whether through export subsidies or other surplus disposal measures not directly tied to needed food aid and humanitarian assistance programs.

III. Rising Commercial World Food Demand. Changes in domestic farm programs here and abroad that would be necessitated by trade liberalization in the agricultural sector would be much easier to accommodate in a period of strong food demand, since the burdens of adjustment would be minimized. The rapidly changing picture of world commercial demand for foods and feeds suggests that now is just such a propitious moment.

While food consumption patterns are influenced by a number of factors--including cultural and taste preferences, availability and costs--per capita disposable income appears to be the strongest factor in shaping human dietary patterns. The following table illustrates this fact:

Per Capita Red Meat Consumption
in Specified Countries
Average 1961-65, and Annual for 1971
(pounds)

Country	Average 1961-65	1971
United States	167	192
Canada	142	164
European Community (of Six)	102	122
U.S.S.R.	68	89
Japan	13	27

Source: Foreign Agricultural Circular: Livestock and Meat, FLM 2073 (February, 1973), 4.

The table illustrates two important relationships. In the first place, the countries are listed in approximate declining order of per capita incomes. The United States--with the highest per capita income--has the highest per capita meat consumption for both periods, with Japan--having the lowest per capita income among the listed countries (at least at the beginning of this period)--with the lowest per capita meat consumption. Secondly, as per capita incomes rose during the decade, per capita meat consumption rose in each country or geographical area. If poultry consumption were included, the relationships would be even more pronounced. These trends clearly indicate that, as per capita incomes continue to increase during the Seventies, per capita meat consumption will continue to increase. Recent increases in meat prices in the U.S. illustrate that, even here, consumers are continuing to bid for more meat. Even more pronounced increases in meat prices in the European Community and Japan reveal similar demand for increased meat consumption there. Finally, the most recent Soviet five-year plan indicates intentions to increase Russian meat consumption by 25 percent during this period.

With per capita disposable incomes projected to continue to increase rapidly in the coming decade, per capita meat consumption--and therefore demand--should continue to mount. This trend has special significance for the U.S., which has a pronounced comparative advantage in production of feed grains and soybeans, critical ingredients in production of meat, milk and eggs. That significance can be illustrated by a simple comparison. On the one hand, and as a rough rule-of-thumb, it takes about 8 pounds of feed to produce a pound of beef; 4 pounds of feed to produce a pound of pork; and 2-1/4 pounds to produce a pound of broiler. This means that each one pound increase in meat production and consumption requires a multiple increase in feed production and consumption. As a result, while in the U.S. we use 1750 pounds of feed grains per person to produce the meat and livestock products in our diet, France and W. Germany use only about 40 percent of this amount per capita, Italy about one-quarter and Japan and Taiwan only about one-eighth. Consequently, there is ample room for expanding per capita meat consumption in foreign markets as per capita disposable incomes increase. For example, per capita meat consumption in the European Community is only 60 percent of U.S. levels; in Russia and Eastern Europe it is less than 50 percent; and in Japan it is only about one-eighth of the U.S. standard. As just one example of the potential this holds out for increased farm product exports in the feed grains-oilseeds sector, the U.S. should export about 9 million tons of grains to Japan this year, up 70 percent from the mid-1960s. Yet Japanese per capita beef consumption is only 4-1/2 pounds, compared to 114 pounds in the U.S.

Of course, other major producing nations--both exporters and importers--will be anxious to seek to expand their production to meet these rising needs. It should be clear, however, that in the face of these circumstances, the U.S. would stand to gain substantially if agricultural trade negotiations could ensure that competition to meet this rising commercial demand is fair and market-oriented rather than distorted by artificial domestic price incentives, trade-inhibiting border practices and irrational surplus disposal programs. At the same time, the necessary internal adjustments in farm programs required to secure meaningful agricultural trade liberalization would be far less costly to nations forced to adjust in this kind of an expanding market than in a stagnant or declining market. Moreover, off-setting those domestic adjustment costs would be gains to consumers in those countries. For example, substantially complete trade liberalization in the grains-oilseeds-livestock sector could improve consumer well-being in the European Community by $10 billion and in Japan by a remarkable $33 billion. 1/ In other words, there are substantial incentives for exporting and importing nations alike finally to face up to the challenge of bringing farm-product trade within the sphere of relatively liberal, open and equitable commercial exchange.

IV. Barriers to Agricultural Trade. Domestic farm programs and border practices distorting agricultural trade are maintained by virtually every country, including the U.S. Necessarily, securing reform in these practices by other nations will entail some reciprocity in the agricultural sector of the United States. But any reasonable comparison of the trade-distorting effects of these practices in major developed nations demonstrates that U.S. agriculture would secure far greater advantages than it would incur adjustment costs. The so-called "Flanigan Report," for example, estimated that substantially complete liberalization of trade in the grains-oilseeds-livestock sector would increase U.S. agricultural exports by $9 billion by 1980, compared with an increase of only $1 billion in farm product imports. Moreover, the same source estimated that--alongside this $8 billion gain in U.S. balance-of-payments--taxpayers in the U.S. would be able to save $4 billion annually in farm program costs while farm income would increase by $4 billion. 2/ Obviously, the trade gains the U.S. could expect from such liberalization could not be secured without reciprocal and mutually beneficial concessions to our trading partners. For this reason, it is crucial that agricultural trade negotiations be

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1/ Agricultural Trade and the Proposed Round of Multilateral Negotiations, in Congressional Record (April 12, 1973), S-7210.

2/ Ibid., S-7209.

tied to industrial negotiations. Equally clearly, the nation as a whole would gain substantially from this kind of major progress in the agricultural sector.

A. European Community's Common Agricultural Policy (CAP)

Turning to agricultural policies and border practices that distort world agricultural trade and whose incidence falls especially hard upon the U.S., one of the most obvious examples is the Community's Common Agricultural Policy. Originally covering agricultural production and trade among the EC-Six, this policy has recently been extended through enlargement to the new member-countries--the United Kingdom, Denmark and Ireland. The CAP now covers about 95 percent of European agricultural production. Of major concern to the U.S., however, is the CAP for grains, which was established in 1962 and achieved unified prices around the mid-1960s. The CAP for grains has been a source of stress in relations between the U.S. and the Community for several years, and many in the Community have accused the U.S. of seeking to destroy the entire idea of a common agricultural policy for the Community. This is not the case, and any negotiation with the Community concerning the CAP for grains must begin by making clear that the U.S. does not seek destruction of a common policy. U.S. negotiators, however, must direct their attention to the trade-inhibiting and trade-distorting effects which have followed from the particular form given to the CAP for grains and the manner in which it has been administered.

The CAP for grains and rice includes the following internal measures: (1) a "target" price meant to support grain-farmer incomes at politically acceptable levels; (2) a "threshold" price set at or near the domestic target price and below which imports from third countries--including the U.S.--cannot enter; (3) absence of restraints on production; and (4) an "intervention" price at which a governmental agency will purchase any production which cannot be marketed commercially. In order to insulate this system and domestic producers from external market developments, there are variable levies to make up the difference between threshold or minimum import prices and lower world prices, with export subsidies ("restitution" payments) to facilitate sales into export markets.

EC intervention and target prices are high and well above world price levels, as can be seen in the following table of 1971 prices:

Commodity	Intervention Price	Target Price
	--dollars per metric ton--	
Wheat:		
Non-durum	100.72	109.44
Durum	119.85	127.50
Corn	79.31	96.89
Barley	92.02	100.21

Import levies have also been very high. For example, EC variable levies for the week of October 4, 1972, were $1.26 per bushel for wheat (non-durum), $1.13 per bushel for corn and $1.04 per bushel for sorghum.

The combination of very high internal prices, absence of restraints on production and absolute protection from external competition through the variable levies has provided a substantial stimulus to EC production of grains. The following table compares EC production, on the average, between 1960-64 and in 1971 for selected commodities:

PRODUCTION

--1,000 tons--

Year	Wheat	Barley	Corn	Total Grains
1960-64	26,163	10,812	6,397	56,511
1971	34,011	16,121	13,353	77,015

In other words, between these two periods EC wheat production increased by about 40 percent, barley production by about 50 percent and corn production by approximately 110 percent. Total grains production jumped by nearly 40 percent.

As a result of such policies, the EC has become a stagnant--if not declining--market for U.S. exports of feed grains and wheat. In 1958-59, such exports were valued at $269.7 million. By 1965-66, they had risen in value to $638.7 million. As of 1967, the CAP for grains was unified. Since then, as the following table illustrates, the EC has hardly been a growing market for such U.S. exports:

SELECTED U.S. AGRICULTURAL EXPORTS TO EC

(millions of dollars)

	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
Corn	$ 376.6	$ 278.9	$ 338.5	$ 253.4	$239.2	$277.1	$ 352.6
Grain Sorg.	92.2	59.0	37.3	9.7	7.8	32.9	12.0
Barley	44.4	19.7	12.3	2.9	7.8	28.6	.2
Oats	23.8	10.1	3.0	1.8	-	9.8	-
Wheat	101.7	94.5	86.9	85.0	47.3	82.1	56.8
Total	$ 638.7	$ 462.2	$ 480.0	$ 352.8	$ 294.5	$ 421.0	$ 421.6

In other words, these grain exports from the U.S. to the EC declined steadily and markedly between 1965-66 and 1969-70. Even though they rebounded in 1970-71 and 1971-72, they recovered to a level only two-thirds as high as prevailed in 1965-66. Corn exports provide a good example. The U.S. is highly competitive internationally in production and export of corn. Yet, between 1965-66 and 1971-72, U.S. corn exports to the EC actually declined, and in no year during this period did they rise above their 1965-66 high. This provides forceful evidence of the trade-diverting impact of the CAP.

The trade-diverting effects of the CAP can also be illustrated by comparing U.S. exports to the EC subject to variable levies with U.S. exports to the EC not subject to variable levies:

U.S. AGRICULTURAL EXPORTS TO THE EC

(millions of dollars)

Year	Total	Variable-levy Commodities	Non-variable-levy Commodities
1955-56	$ 850.8	$ 315.1	$ 535.7
1956-57	1250.7	359.2	891.5
1957-58	876.3	185.0	691.3
1958-59	791.4	309.0	482.3
1959-60	1120.8	332.5	788.3
1960-61	1100.8	372.9	727.9
1961-62	1184.0	495.7	688.3
1962-63	1069.6	414.0	655.7
1963-64	1322.9	499.3	833.6
1964-65	1370.9	518.6	852.4
1965-66	1593.6	715.9	877.7
1966-67	1509.9	522.4	987.5
1967-68	1402.9	530.5	872.4
1968-69	1299.9	402.4	897.6
1969-70	1410.8	351.3	1059.5
1970-71	1765.9	479.5	1286.4
1971-72	1891.2	461.2	1430.0

Examining each of these columns separately suggests some interesting trends. Looking first at total U.S. agricultural exports to the EC, the first four years covered--1955-56 through 1958-59--contains some sizable fluctuations; after that period, U.S. farm exports grow relatively steadily through 1965-66, From 1966-67 through 1969-70, total agricultural exports from the U.S. to the EC then drop below the level achieved in 1965-66. Only in the last two fiscal years do total U.S. agricultural exports to the EC rise above that level.

Commodities subject to variable levies reflect the fluctuations in the total for the first four years. They, too, then climb steadily through 1965-66, more than doubling between 1959-60 and 1965-66. Since the 1965-66 level, U.S. agricultural exports subject to variable levies drop below the 1965-66 level and remain well below that level. For example, in 1971-72, the dollar value of U.S. agricultural exports subject to variable levies is more than $250 million below the 1965-66 level, a decline of more than one-third.

Commodities not subject to variable levies show the same fluctuations in the first four years as evidenced in the other two categories. Beginning with 1959-60, U.S. agricultural exports not subject to variable levies begin a slow and relatively steady climb. This upward trend continues right through the 1965-66 watershed for the other two columns (again, 1965-66 representing the last fiscal year prior to price unification under the CAP for grains), reaching a peak of $1.4 billion in 1971-72.

Two of the major reasons for this growth in non-variable-levy commodities have been the performance of oilseeds and products--principally soybeans and soybean meal--and tobacco exports. Oilseed and products exports totaled $212 million in 1959-60, $431.5 million in 1965-66 and $854.2 million in 1971-72. Unmanufactured tobacco exports rose fairly steadily from $82.8 million in 1959-60 to $105 million in 1965-66 and to $162.8 million by 1971-72. Since these two product areas have been the principal bright spots in U.S. agricultural exports to the EC, the U.S. was seriously concerned over 1969 proposals for consumption taxes for soybeans and soybean meal and is concerned over potential preferences for domestically-produced leaf in the CAP tobacco program.

Broadly speaking, one can summarize the impact of the CAP and variable levies on U.S. farm exports in the following manner. While in 1965-66 commodities subject to variable levies constituted about 45 percent of total U.S. agricultural exports to the EC (with a value of $715.9 million), by 1971-72 these commodities had declined to about 24 percent of total U.S. agricultural exports to the Community, with a value (only $461.2 million) less than two-thirds of the 1965-66 total. Consequently, variable levies have severely reduced both the absolute dollar level and the relative percentage which commodities subject to them constitute in total U.S. agricultural exports to the EC.

It is also misleading to suggest--as some Europeans have--that, because U.S. agricultural exports to the EC since 1964 have grown more rapidly than to the rest of the world, that the EC--on balance--remains an open market for U.S. farm exports. In the first place, 1964 does not seem to be the most logical year to use as a basis for comparison, since the full impact of the variable levies on grains was not felt until price unification under the CAP in 1967. Moreover, aggregate agricultural export figures conceal, under the success enjoyed by U.S. agricultural exports not subject to levies, the serious trade impact on commodities subject to those levies. In addition, U.S. agricultural exports to the rest of the world on an aggregate basis conceal some important trend-line developments. For example, U.S. agricultural exports under governmental programs and to certain less-developed areas of the world declined in this period as the U.S. reduced its non-commercial exports and some developing nations improved their ability to meet their own food needs. Thus, while in fiscal years 1961-65, U.S. agricultural exports under government programs averaged $1.5 billion per year, by 1969 and 1970 they had dropped, in both years, to about $1 billion annually. Similarly, average annual agricultural exports from the U.S. to India were $371.7 million for the period of fiscal years 1961-65. By fiscal year 1970, U.S. farm product exports to India had declined to $275.4 million. By contrast, U.S. agricultural exports to Japan averaged about $600 million each year in the 1961-65 period. By fiscal year 1970, they had increased to approximately $1.1 billion, an increase of about 85 percent.

The accompanying table helps to clarify this situation further:

Table I.--U.S. agricultural exports, calendar years 1961-70 1/

Year	To world: Total	To world: Commercial	Commercial to EC 2/	Commercial to world excluding EC
			--Million dollars--	
1961	5,024	3,541	1,093	2,448
1962	5,034	3,555	1,125	2,450
1963	5,584	4,064	1,166	2,898
1964	6,348	4,704	1,408	3,296
1965	6,229	4,880	1,470	3,410
1966	6,881	5,528	1,560	3,968
1967	6,380	5,117	1,460	3,657
1968	6,228	5,039	1,367	3,672
1969	5,936	4,917	1,269	3,648
1970	7,259	6,217	1,559	4,658
1971 3/	7,695	6,696	1,801	4,895
			--Percent--	
1961	100	100	100	100
1962	101	100	103	99
1963	111	115	107	118
1964	126	133	129	135
1965	124	138	134	139
1966	137	156	143	162
1967	127	145	134	149
1968	124	142	125	150
1969	118	139	116	149
1970	144	176	143	190
1971 3/	153	189	165	200

1/ U.S. Bureau of Census and U.S. Department of Agriculture
2/ Excludes transshipments. For a summary of transshipments see table 4.
3/ Estimated.

Between 1961 and 1971, total U.S. agricultural exports increased from about $5 billion to $7.7 billion, an increase of 53 percent. Commercial agricultural exports went from $3.5 billion to $6.7 billion, an increase of 89 percent. Commercial exports to the EC increased by 65 percent (i.e., by less than the increase in all commercial agricultural exports), and commercial agricultural exports to the world excluding the EC doubled, a much better performance than the U.S. has enjoyed with the Community.

Taking into consideration all the relevant information, then, it seems clear that: (1) total U.S. agricultural exports to the EC have not shown steady growth; (2) commodities subject to variable levies have declined both absolutely and as a percentage of U.S. farm product exports to the EC; and (3) U.S. agricultural exports to the EC do not compare very favorably--in terms of growth--to the U.S. experience with commercial agricultural exports to the rest of the world.

High and protected internal prices have also artificially stimulated domestic grain production in the EC while retarding expansion of consumption. For example, between 1961 and 1969, total grain production in the EC jumped by 20 million tons. During the same period, EC grain consumption increased by only 13 million tons. Yet, while the EC stimulated uneconomic grain production, other sectors of agriculture saw their growth inhibited in spite of rising demand prospects. For example, while France increased her grain production by 87 percent between 1960 and 1969, she was able to raise her livestock production only 41 percent, in large part because high grain price supports attracted capital away from the livestock sector. Thus, surplus grain production at artificially high prices was encouraged while livestock production was discouraged, even though per capita meat consumption in the EC is only about half that in the U.S. This will become an increasingly pressing problem as rising per capita incomes in the EC generate increasingly insistent consumer demands for improved diets and especially for greater meat consumption.

Some of the strongest pressures for high grain prices have come from West Germany, a response to political pressures from its farm community. Yet high and continually rising grain prices have not alleviated the income problems of German farmers. An examination of the feedgrain-livestock sector of the German agricultural economy helps to explain this paradox. Currently, about 15.5 million tons of grain are consumed as feed in Germany, but only 1.4 million tons of feedgrains are sold by German farmers. Consequently, German cash sales of feedgrains--which would be benefitted by high grain prices--are only one-eleventh of total grains consumed as feeds, where high prices translate into high input costs. Moreover, while the bulk of the feedgrains fed in Germany are raised on the farm feeding the grain, Germany still must import--at artificially high prices--about 4 million tons of feedgrains annually. Finally, high grain prices have not proved an adequate stimulus to German farm production. While German output has increased at a rate of about 1.6 percent annually, imports have increased at a rate of about 5.4 percent annually. By the end of the 1960s, the value of imports had come to equal the value of production--at about $5.5 to $6 billion each. High feedgrain prices have not proved an aid to German farm income--which continues to lag well behind non-farm income--but it has retarded the growth of a livestock industry and, by frustrating livestock production, may have retarded growth in net farm income for German producers.

The artificial stimulus the CAP has given to EC grain production has also created other serious problems affecting U.S. agricultural exports, problems which are again related to the attempt to support farm income through high price support systems. In the first place, as U.S. experience also illustrates, price supports benefit the largest and most efficient producers, while accomplishing very little for the small farmer. For example, as Mr. Debattisse--a leader of the French national farm organization (FNSEA)--pointed out some years ago, a one-franc increase in wheat prices yields a relatively small number of large farmers an average of 3,000 francs while it yields some 350,000 small farmers an average of only 25 francs per year.

Secondly, it tends to lead to a continuing series of price support increases--which are inflationary in the economy and a serious burden on working people--while encouraging surplus production which must be disposed of in ways which disrupt the exports of traditional exporting nations like the U.S. The inequity of supporting farm incomes by high prices--which, in effect, represents taxation of consumers on a regressive basis--is illustrated by an Atlantic Institute Study. In a recent year, of total EC expenditures for agricultural support of $11 to $13 billion, EC consumers paid $6 to $8 billion. No democratic government would contemplate raising $6 to $8 billion in revenues from a tax falling most heavily on persons with the lowest incomes. Yet, financing agricultural support through high price policies, in effect, does exactly that.

Income support through high prices also feeds inflation and continuing pressure to increase prices. A comparison of U.S. and French wheat price support policies helps to illustrate this. The total U.S. "blend" price for a bushel of wheat in 1962 was $2.28; in 1971, it was $1.86. In that period, the loan rate (or price-support level) in the U.S. dropped from $2.00 to $1.25 per bushel. In France, the price support level rose from an effective rate of $2.11 in 1962 to $2.54 per bushel in 1971. While U.S. export subsidies for wheat declined from an average of 55 cents per bushel in 1962 to an average of 23 cents per bushel in fiscal year 1971, and have since been eliminated, French export subsidies rose from $1.05 to $1.25 per bushel.

Since EC income support moves largely through the price mechanism, the other side of the coin to high levels of protection and consumer prices has been substantial EC export subsidies. In fact, EC export subsidies are often larger than the world market price for the product. In early 1970, for example, the world price for soft wheat was around $50 per ton, and the Community export subsidy was $57 per ton. And, while both the U.S. and the EC support their dairy sectors at levels substantially above world market prices, the EC spent approximately $400 million subsidizing dairy exports in 1970, compared to $33 million by the U.S. Because of pressures felt within the EC to dispose of mounting surpluses, seriously trade-disruptive uses of export subsidies have frequently occurred. For example, several years ago butter selling in Amsterdam for 80 cents a pound could be bought in Beirut, Lebanon, as a result of export subsidies, for 20 cents a pound. And France sold feed wheat in Taiwan for 99 cents per bushel, a price only made possible by export subsidies which undermine markets for traditional exporting nations and disrupt commercial agricultural trade.

Subsidies for surplus disposal need not always take the form of export subsidies to have damaging effects on U.S. farm product exports. For example, a denaturing premium of 43 cents per bushel in France--to feed surplus soft wheat to livestock--reduces the potential for U.S. feedgrain exports to the EC.

While the impact of the CAP for grains on production and trade in the EC has been serious, the long-term impact on grain utilization rates may prove even more damaging to U.S. farm export prospects. For example, the disposal of surplus non-fat dry milk by feeding it to calves has provided a price incentive to veal production at the expense of red meat. Furthermore, the ratio between corn and wheat prices within the EC has not reflected their relative feeding values and has encouraged use of wheat for feed at the expense of corn which could have been exported from the U.S.

Most importantly, however, high internal feedgrain prices in the EC have encouraged substitution of other energy sources--like manioc--for feedgrains in mixed feeds:

> This has been dramatically illustrated in The Netherlands where a grain component of mixed feeds declined from 66.1 percent in the early 1960s to 34.8 percent in 1969 . . . 1/

In addition, high feedgrain prices have retarded growth in the livestock sector, where price elasticity of demand is relatively great. While it is difficult to quantify this effect, the continuation of per capita meat consumption in the EC at about 60 percent of the U.S. level, with its attendant depression of feedgrain consumption, has undoubtedly seriously reduced potential U.S. feedgrain export markets in the EC.

In other words, at least five major adverse consequences on U.S. grain exports stemming from the CAP can be identified: (1) with variable levies on wheat and feed grains approximately 80 to 100 percent of world price levels, the CAP imposes very high barriers to U.S. exports of these commodities; (2) similar high barriers to farm exports from other exporting nations has diverted perhaps 20 to 30 million tons of grain exports into other markets, heightening competition in these other markets while depressing world price levels; (3) high internal grain prices and absence of restraints on production have artificially stimulated EC grain production--which increased from 50 million tons in 1961 to 86 million tons this past year--and threaten to produce the same uneconomic distortions in the new member-countries.

1/ "The Impact on U.S. Agricultural Trade of the Accession of the United Kingdom, Ireland, Denmark and Norway to the European Economic Community," ERS, USDA Michigan State University Contract Project No.12-17-07-4-505, 19.

especially the United Kingdom; (4) high internal grain prices and distorted price relationships among grains, between grains and other feed materials and between grains and livestock have also artificially retarded growth in consumption of grains as feeds by both depressing animal numbers and encouraging substitution of other materials for feed grains; and (5) subsidized disposal of surpluses either through export subsidies or through denaturing premiums for wheat used as feed has undercut U.S. grain exports both in the Community and in many third-country markets.

B. Japan. Several Japanese barriers have proven equally as serious. Moreover, with a trade surplus of about $4 billion with the U.S. last year, the Japanese could easily increase their purchases of U.S. farm product exports. And, though many Japanese policies seriously restrict U.S. agricultural exports, it is also true that Japan has been a rapidly growing market for many U.S. farm product exports in recent years, becoming our largest single-country market.

Nevertheless, many of these barriers to agricultural imports are serious and deserve mention. For example, Japanese wheat and barley imports move through the Japanese Food Agency. Though these products are purchased on world markets at different price levels, they are sold in the internal market at a uniform and noticeably higher price level. This both retards domestic consumption in Japan of these commodities and prevents price competition from being reflected in patterns of commodity purchases to the same extent they would be under market conditions.

The Japanese also control investment patterns and, in many cases, have prevented direct investments by foreign concerns in the Japanese markets. As a result, while the domestic Japanese feed compounding industry has grown substantially in the past decade, that growth has been controlled, and foreign participation has been largely excluded. Such controls on investment and foreign participation prevents development of U.S.-controlled feed compounding and distribution facilities within Japan. Though it is difficult to quantify these effects, they have undoubtedly held U.S. grain exports below growth rates that would have been achieved in their absence.

The Japanese have also heavily subsidized domestic rice production--at levels approximately four times higher than world values. As a result, substantial rice surpluses have developed. In an effort to reduce these surpluses, the Japanese have provided substantial subsidies to dispose of these rice surpluses as animal feeds. While the rice surplus is now greatly reduced, this disposal program seriously undermined feed grain exports to that country.

The effects of this general program of Japanese central guidance and control of food policies is well illustrated by a 1969 study by Joseph Barse of the Economic Research Service of USDA. As he pointed out, the Japanese are in a position to guide centrally their food consumption and import policies, with the opportunity to choose among a variety of alternative "food strategies." The differences in Japanese import demand by 1985 between a "Western-oriented" and an "Eastern-oriented" food strategy are dramatic--ranging from a low of 18.8 million tons of grain imports under the "Eastern" strategy to a high of 50.2 million tons under the "Western" strategy. 1/ Obviously, the U.S. should no more suggest that it is dictating Japanese food plans than it should suggest that it seeks to destroy a common agricultural policy in the EC. But the U.S. can and should press for the same kinds

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1/ Japan's Food Demand and 1985 Grain Import Prospects, Joseph R. Barse, ERS, USDA, Foreign Agricultural Economic Report No.53, 71.

of open and equal access--for both imports and import-generating foreign direct investments--that Japan receives in the U.S. market.

C. Competing Exporters. Here, major distortions of agricultural trade arise primarily from various forms of subsidization of exports competing with U.S. exports. These subsidies can take many forms--direct governmental participation in marketing, as in various wheat boards; cash export subsidies, subsidized export credits, part-commercial-part-concessional sales arrangements and other arrangements that reduce the costs of exports to foreign customers below what they would be under normal market practices; and indirect subsidies--like transportation subsidies or subsidies on production inputs--which have the effect of reducing costs of producing or marketing agricultural commodities. Such practices tend to lead to fruitless competition among national treasuries, the long-term effects of which include depressing world price levels while distorting world resource allocation.

V. Summary. Several common threads run through many of these practices. First, they typically fall into the area of non-tariff barriers to trade. Secondly, these practices reach well beyond national borders, having become firmly embedded in domestic agricultural policies. As such, they have become capitalized over time into land values and other costs of production, making the burdens of adjustment even more serious. Many of these policies represent attempts by governments to deal with serious social inequities and problems. Removing such policies would not only create hardships for individuals but also impose real political risks on national governments which they are obviously reluctant to undertake. Clearly, bringing more rational and liberal policies into agricultural trading arrangements will be a difficult undertaking and will involve, as a practical matter, a longer time horizon than trade adjustments in other sectors. For these reasons, it is impossible to spell out specifically the kinds of U.S. initiatives to be taken in the area of agricultural trade. But the serious distortions which currently exist, the tremendous costs they impose on U.S. producers, taxpayers and balance-of-payments as well as on consumers and national economies abroad and the length of time that it will take to achieve substantial liberalization in agricultural trade all make it imperative to begin reform now. Congress and the Executive ought to make clear the high national priority the U.S. places upon achieving meaningful progress in agricultural trade reform in prospective multilateral negotiations.

H.R. 6767

SUMMARY OF THE TRADE REFORM ACT OF 1973

TITLE I - AUTHORITY FOR NEW NEGOTIATIONS

Title I contains the basic authorities required for trade negotiations.

The President is provided authority for a period of five years to increase or decrease tariffs without limit in order to carry out trade agreements. Any proposed changes in duties are subject to prenegotiation procedures, including public hearings. Duty reductions will be phased over a minimum of five equal annual stages or by maximum annual reductions of three percent ad valorem, whichever is greater.

The President is provided advance authority to implement agreements relating to methods of customs valuation, certain matters relating to assessment, and marking of origin requirements. A new procedure is also established under which the President can implement agreements on other types of trade barriers if he notifies the Congress 90 days before concluding such an agreement and if neither House of Congress disapproves of the agreement within ninety days of its submission.

TITLE II - RELIEF FROM DISRUPTION CAUSED BY FAIR COMPETITION

Title II contains major changes in existing provisions relating to import relief for industries seriously injured by increased imports, and provides new adjustment assistance provisions for workers displaced by import competition.

Chapter I liberalizes existing criteria for determining that injury to domestic industries is due to imports. Upon petition, request, or on its own motion, the Tariff Commission will conduct an investigation to determine whether increased imports are the "primary" cause of serious injury, or threat thereof, to the domestic industry producing like or directly competitive articles. A finding of market disruption constitutes *prima facie* evidence that imports are the primary cause of injury.

The President can provide import relief in the form of increases in duties, quantitative limitations, orderly marketing agreements, and suspension of items 806.30 and 807.00 of the Tariff Schedules. Consistent with adjustment purposes, import relief is limited to five years and must be phased out during this period. The relief may be extended for one two-year period.

Chapter II on adjustment assistance provides for supplemental payments to workers in cases where the Secretary of Labor determines that increased imports have been a "substantial" cause of unemployment or underemployment. The supplemental payment benefits are based on those which will apply under State law for all workers following enactment of companion legislation establishing minimum state standards for unemployment insurance benefits. The chapter also provides continuing programs of worker benefits in the form of training and relocation and job search allowances.

TITLE III - RELIEF FROM UNFAIR TRADE PRACTICES

Title III revises the four principal statutes which provide authority to respond to foreign unfair trade practices.

Chapter I revises and expands the President's authority under section 252 of the Trade Expansion Act to take action against foreign countries which maintain unjustifiable or unreasonable import restrictions and other policies which burden, restrict, or discriminate against United States trade.

Chapter II amends the Antidumping Act of 1921. The amendments include placing time limits on investigations and withholding of appraisement and providing for hearings.

Chapter III contains major amendments to the countervailing duty law. Countervailing duties will apply for the first time to duty-free goods, subject to a determination of material injury by the Tariff Commission. The application of countervailing duties is not required, however, if such action would be significantly detrimental to United States economic interests or an existing quantitative limitation is an adequate substitute. The Secretary of the Treasury must determine within one year whether a bounty or grant is being paid or bestowed.

Chapter IV amends section 337 of the Tariff Act relating to foreign unfair practices in import trade by expanding the procedures in the statute relating to patent infringement. Companion legislation will provide the Federal Trade Commission authority to investigate and regulate other unfair methods of import competition.

TITLE IV - INTERNATIONAL TRADE POLICY MANAGEMENT

Title IV contains various permanent authorities to provide the President with more flexible means to manage trade policy.

It provides explicit and flexible authority for the President to deal with serious balance-of-payments situations, including authority to impose a temporary import surcharge or other import limitations to deal with a serious balance-of-payments deficit, or to cooperate in correcting an international balance-of-payments disequilbrium. The President is also authorized to reduce or suspend tariffs or other import restrictions temporarily in the case of a persistent balance-of-payments surplus.

Other permanent authorities enable the President to exercise fully United States rights and obligations under trade agreements, to implement supplemental tariff agreements of a limited scope, to compensate countries for increases in United States import restrictions, and to reduce import restrictions temporarily to restrain inflation.

TITLE V - TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED-NATION TREATMENT

Title V provides authority to the President to extend most-favored-nation treatment to imports from countries which currently receive Column 2 rates of duty, subject to a 90-day Congressional veto procedure. This treatment may be extended through bilateral commercial agreements or through multilateral trade agreements to which the United States is also a party.

The agreements must be limited to an initial period of not more than three years but may be renewed for additional three-year periods. The President may suspend or withdraw the application of most-favored-nation treatment at any time, and the agreements must provide for suspension or termination at any time for national security reasons.

The Tariff Commission, upon petition or other initiation will conduct an investigation to determine whether imports from the country receiving most-favored-nation treatment under this title are causing or likely to cause material injury to a domestic industry and whether market disruption exists with respect to these imports. The President may apply relief measures to imports from that country without taking action on imports from other countries.

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TITLE VI - GENERALIZED SYSTEM OF PREFERENCES

Title VI provides authority to the President for ten years to participate with other developed countries in granting generalized tariff preferences on imports of semi-manufactures, manufactures, and selected other products from developing countries.

The President may provide duty-free treatment on any eligible article from beneficiary developing countries, subject to pre-negotiation procedures. Preferential treatment is generally not to apply to imports of an article from a particular developing country which supplies more than 50 percent of the total value of United States imports or $25 million of the article to the United States during a representative annual period.

Preferential treatment will not apply to articles on which import relief measures or national security actions are in effect. Developing countries which do not undertake to eliminate preferences to other developed countries before January 1, 1976, or are not receiving most-favored-nation treatment are not eligible as beneficiaries.

TITLE VII - GENERAL PROVISIONS

Title VII contains general technical provisions applicable to the entire Act, including maintenance of the Tariff Schedules of the United States and the repeal of various sections of the Trade Expansion Act.

It also repeals the Johnson Debt Default Act, and an embargo on certain furs.

TRADE REFORM ACT OF 1973 (H.R. 6767)

SEC. 1. SHORT TITLE

The Act may be cited as the "Trade Reform Act of 1973."

SEC. 2. STATEMENT OF PURPOSES

Purposes of the Act are: (a) to provide authority for the U.S. to participate in an interrelated effort to reform international trade rules, to formulate international investment and tax policies and to improve the international monetary system; (b) to facilitate international cooperation to solve internationsl economic problems in an effort to contribute to peace and prosperity; (c) to stimulate growth of the U.S. economy, enlarge foreign markets for U.S. goods and expand world trade through liberalization on the basis of mutual benefit and equity; (d) to establish a program of temporary import relief to aid adjustment, consistent with anticipated multilateral safeguards; (e) to provide trade adjustment assistance to workers; (f) to deal with unfair import competition; (g) to provide additional authority to the President in order to secure fair treatment and equitable access for U.S. exports; (h) to provide the President flexible authority needed to preserve U.S. rights under international agreements and to deal with balance of payments disequilibria and domestic inflation; (i) to enable the U.S. to capitalize on trade opportunities with countries with which the U.S.has not had trade relations in the recent past; and (j) to participate in a broad effort to open markets of the developed nations to the less developed through a system of generalized preferences.

TITLE I -- AUTHORITY FOR NEW NEGOTIATIONS

CHAPTER 1 -- GENERAL AUTHORITIES

SEC. 101 - BASIC AUTHORITY FOR TRADE AGREEMENTS

Whenever the President determines that any of the purposes of this Act will be promoted, he may enter into trade agreements with foreign countries during the five years following enactment of this Act. The President may, in connection with trade agreements with foreign countries, at any time during the five-year period, increase or decrease without limit any existing duty, continue existing duty-free or excise treatment or impose additional duties as he determines to be required or appropriate to carry out trade agreements.

SEC. 102 - STAGING REQUIREMENTS AND ROUNDING AUTHORITY

(a) Normal staging of duty rate reductions will be either one-fifth of the aggregate reduction or 3 percent ad valorem each year for five years, whichever is greater.

(b) Staging of reductions may be interrupted and the period of interruption excluded from computation of the staging of reductions once resumed.

(c) Limited rounding up of reductions permitted.

(d) Normal staging is not required if the total aggregate reduction is less than 10 percent of the prior rate.

(e) In the case of certain products, reductions can be extended beyond the five-year minimum period.

SEC. 103 - NONTARIFF BARRIERS TO TRADE

(a) Congress finds that trade barriers are impeding growth of trade, impairing benefits of mutual concessions and preventing expansion of nondiscriminatory trade. "It is the will of Congress that the President take all appropriate and feasible steps within his power to reduce, eliminate, or harmonize barriers and other distortions of international trade in order to further the objective of providing better access for products of the United States to foreign markets."

(b) The President is urged to pursue such negotiations on the basis of mutuality. Neither this subsection nor subsection (a) constitutes prior approval of any legislation necessary to implement any resulting agreement.

(c) The President is authorized to take necessary and appropriate actions to implement agreements on customs valuation, assessment regulations and origin marking requirements.

(d) When Congressional approval is needed to implement the results of a trade agreement under this section, the President may issue orders necessary to implement such agreements subject to the procedures outlined in subsection (e).

(e) Orders specified in subsection (d) will be valid (1) only if the President notifies both Houses of his intention to utilize this procedure 90 days before entering into an agreement; (2) only after expiration of 90 days from Presidential submission of such agreement and his reasons for entering into it to both Houses; and (3) only if neither House in this 90-day period has adopted, "by an affirmative vote by the yeas and nays of a majority of the authorized membership of that House, stating that it disapproves of the agreement."

CHAPTER 2. -- HEARINGS AND ADVICE CONCERNING NEGOTIATIONS PURSUANT TO TITLE I

SUBCHAPTER A -- TITLE I PRENEGOTIATION REQUIREMENTS

SEC. 111 - TARIFF COMMISSION ADVICE

In connection with any proposed trade agreement under Section 101, the President shall from time to time publish lists of articles being considered for tariff reductions and the Tariff Commission shall, within six months, inform the President of the probable economic effect of modifications of duties "on industries producing like or directly competitive articles." The Tariff Commission shall hold public hearings.

SEC. 112 - ADVICE FROM DEPARTMENTS

With respect to trade agreements under Sections 102 or 103, the President shall seek information and advice from relevant Departments and other appropriate sources. When such advice is sought from industry advisory groups, those proceedings will be exempted from the open meeting and public participation requirements of Section 10(a)(1) and (3) of the Federal Advisory Committee Act.

SEC. 113 - PUBLIC HEARINGS

Provides for public hearings at which any interested party can present information relevant to any proposed trade agreement under Sections 101 and 103.

SEC. 114 - PREREQUISITE FOR OFFERS

In seeking an agreement under Section 101, the President can make offers of concessions only after he has received a summary of the hearings required under Section 113 and only after receiving information from the Tariff Commission solicited under Section 111, or the expiration of the six months period, whichever comes first.

SUBCHAPTER B -- CONGRESSIONAL LIAISON

SEC. 121 - TRANSMISSION OF AGREEMENTS TO CONGRESS

The President must transmit to Congress any agreement under Sections 101 or 103, together with his reasons for entering into it, as soon as practicable after entering into it, if he has not already done so.

TITLE II -- RELIEF FROM DISRUPTION CAUSED BY FAIR COMPETITION

CHAPTER 1 -- IMPORT RELIEF

SEC. 201 - INVESTIGATION BY TARIFF COMMISSION

(a) Defines the entities which may petition for eligibility for import relief "for the purpose of facilitating orderly adjustment to import competition" on behalf of affected workers.

(b) Defines how a Tariff Commission investigation may be initiated. The Tariff Commission shall "promptly make an investigation to determine whether an article is being imported into the United States in such increased quantities as to be the primary cause of serious injury, or the threat thereof, to the domestic industry producing articles like or directly competitive with the imported article." Also defines the factors to be considered by the Tariff Commission in making such an investigation--including idle plant capacity, failure of a significant number of firms to make a reasonable profit and significant un- or under-employment in the industry. In determining "primary cause," the Tariff Commission shall consider all relevant factors, including current business conditions' contribution to competitive difficulties. The Tariff Commission shall also report on efforts made by firms to be more competitive. The Tariff Commission shall also determine whether a condition of "market disruption"--as defined in subsection (f) below--prevails. Such a finding would constitute prima facie evidence that imports are the primary cause of serious injury or the threat thereof.

(c) Public hearings required.

(d) The Tariff Commission shall report to the President its findings--including dissents or separate views--and the basis thereof. Normally, the Tariff Commission must make its report to the President within three months of the filing of the petition, although this can be extended a further two months. Upon filing, the Report must be made public.

(e) At least one year must elapse between a Tariff Commission report and another investigation on the same subject matter.

(f) "Primary cause" means "largest single cause." A "condition of market disruption shall be found to exist whenever a showing has been made that imports of a like or directly competitive article are substantial, that they are increasing rapidly both absolutely and as a proportion of total domestic consumption, and that they are offered at prices substantially below those of comparable domestic articles."

(g) and (h) Provide for assimilation of investigations and subsequent action under similar provisions of the Trade Expansion Act of 1962 to provisions of this Act.

SEC. 202 - PRESIDENTIAL ACTION AFTER INVESTIGATIONS

(a) After receiving a Tariff Commission report making an affirmative finding under Section 201 (d) with respect to an industry, the President may--

(1) "provide import relief for such industry in accordance with Section 203; or

(2) direct the Secretary of Labor to give expeditious consideration to petitions for adjustment assistance for workers in the industry concerned; or

(3) take any combination of these actions."

(b) The President has 60 days to act after report of an affirmative finding by the Tariff Commission, 120 days after an evenly divided report. In the latter case, if import relief is not provided, the President must supply his reasons to both Houses.

(c) Lists considerations of the President in deciding whether to provide relief under Section 203--including extent of adjustment assistance being provided industry workers; probable effectiveness of import relief in achieving the adjustment purpose; the effect of import relief on domestic supplies, prices and competition; the effect on U.S. international economic interests; the effects on other industries of any duty compensations which may be required; geographical concentration of imports; and alternative economic and social costs of providing or not providing import relief.

(d) The President has 45 days in which to request additional information, and the Tariff Commission an additional 60 days in which to respond.

SEC. 203 - IMPORT RELIEF

(a) In providing import relief, the President shall, for as long as (not to exceed five years) and to the extent he deems necessary to facilitate orderly adjustment--

(1) increase or impose duties or other import restrictions on the offending article; or

(2) suspend partially or completely application of items 806.30 or 807 with respect to such article; or

(3) negotiate orderly marketing agreements with foreign countries; or

(4) any combination of such actions.

(b) Such import relief shall become initially effective within 60 days of the President's determination, except that 180 days are allowed if the President announces his intention to negotiate one or more orderly marketing agreements.

(c) The President is given authority to promulgate regulations concerning entry or withdrawal of goods from warehouses in the case of negotiation of orderly marketing agreements.

(d) The President may, at any time, replace relief under subsection (a) (1) or (2) with an orderly marketing agreement, suspending or terminating any prior relief. Unless import relief is renewed under subsection (d)(4), it must terminate within five years of the effective initial date. Import relief is to be phased out gradually. In the case of five-year relief, phasing out must begin within three years of initial grant of relief. The President may renew, in whole or in part, any import relief for a period of two years, if such renewal is in the national interest.

(e) Import relief is to be kept under constant review by the Tariff Commission. No earlier than 9 or later than 6 months before scheduled termination of relief, upon petition on behalf of the affected industry, the Tariff Commission shall report to the President the probable effect of termination and progress made by the industry to adjust. Public hearings are required.

(f) No investigation for import relief can be undertaken unless two years have elapsed since expiration of import relief.

CHAPTER 2 -- ADJUSTMENT ASSISTANCE FOR WORKERS

SUBCHAPTER A -- PETITIONS AND DETERMINATIONS

SEC. 221 - PETITIONS

Petitions for adjustment assistance to workers shall be filed with the Secretary of Labor. Provision for public hearings under certain circumstances is made.

SEC. 222 - GROUP ELIGIBILITY REQUIREMENTS

A group of workers in a firm or appropriate subdivision thereof becomes eligible for assistance when the Secretary of Labor finds that workers have become or are under threat of becoming totally or partially separated, that sales or production or both have decreased absolutely and that increases of imports of articles like or directly competitive contributed substantially to such separation of threat thereof.

SEC. 223 - DETERMINATION BY SECRETARY OF LABOR

The Secretary must make his finding within 60 days of a petition being filed. The separation in question cannot have occurred more than one year before filing of a petition or more than 6 months before enactment of this Act. The Secretary may request aid from the Tariff Commission. The Secretary must publish his findings in the FEDERAL REGISTER. Whenever the Secretary finds that separations leading to a certification of eligibility are no longer the result of conditions specified in Section 222, he shall terminate assistance and publish his findings.

SUBCHAPTER B -- PROGRAM BENEFITS

PART I -- SUPPLEMENTAL PAYMENTS

SEC. 231 - QUALIFYING REQUIREMENTS FOR WORKERS

A worker covered by certification under subchapter A who files with a cooperating State agency shall be paid supplements to State unemployment compensation to which he is eligible if his last separation meets certain time requirements and if, in the last 52 weeks before such separation, he had at least 26 weeks of employment at wages of $30 or more per week or an equivalent amount of employment where such figures are not available.

SEC. 232 - SUPPLEMENT TO UNEMPLOYMENT INSURANCE

Any adversely affected worker meeting the qualifying requirements and receiving State unemployment compensation for any week within a two-year period from his last total or partial separation shall be assured of receiving payments equivalent to what he would have received had the State law provided that such payments equal at least one-half his average weekly wage or the maximum weekly benefit allowed under State law, whichever is lesser, and that the maximum weekly benefit be no less than two-thirds the State-wide weekly average wage. Definitions of "benefit year," "base period," "individual's average weekly wage," "high quarter wages" and "State-wide average weekly wage" are given.

PART II -- TRAINING AND RELATED SERVICES

SEC. 233 - EMPLOYMENT SERVICES

The Secretary shall make every reasonable effort to secure counseling, placement, testing and other supportive services for adversely affected workers, procuring such services through cooperating State agencies where appropriate.

SEC. 234 - TRAINING

If the Secretary determines there is no suitable employment available but there would be with training (including technical and professional employment), he may authorize such training. Where possible, this should be secured on a priority basis through programs already established by law. Supplemental assistance--not exceeding $5 per day for subsistence and 10 cents per mile for transportation expenses--may be authorized for training not in the commuting area. No training may begin more than one year after certification or last separation, whichever is later. A worker who, without good cause, refuses or fails to make acceptable progress in such training, loses eligibility until he resumes the training.

PART III -- JOB SEARCH AND RELOCATION ALLOWANCES

SEC. 235 - JOB SEARCH ALLOWANCES

An adversely affected worker totally separated and meeting requirements under subchapter A may receive up to 80 percent of his job search expenses--not to exceed $500--if he looks for a job in the U.S., the Secretary has determined that suitable employment cannot be secured in his commuting area and he has made application within one year from last total separation.

SEC. 236 - RELOCATION ALLOWANCES

Relocation allowances may be authorized if the adversely affected worker meets the conditions of the previous section and, in addition, is the head of a family, has obtained suitable employment with a reasonable prospect of long-term duration, has a bona fide offer of such employment and the relocation will occur within a reasonable period of time. The relocation allowance shall be 80 percent of reasonable moving expenses and a lump sum payment equal to three times the worker's weekly average wage up to $500.

SUBCHAPTER C -- GENERAL PROVISIONS

This subchapter provides a number of general implementing provisions, which are summarized here only by giving section headings.

SEC. 237 - AGREEMENTS WITH STATES

SEC. 238 - ADMINISTRATION ABSENT STATE AGREEMENT

SEC. 239 - PAYMENTS TO STATES

SEC. 240 - LIABILITIES OF CERTIFYING AND DISBURSING OFFICERS

SEC. 241 - RECOVERY OF OVERPAYMENTS

SEC. 242 - PENALTIES

SEC. 243 - AUTHORIZATION OF APPROPRIATIONS

SEC. 244 - TRANSITIONAL PROVISIONS

SEC. 245 - DEFINITIONS

SEC. 246 - ADMINISTRATIVE PROVISION

TITLE III -- RELIEF FROM UNFAIR TRADE PRACTICES

CHAPTER 1 -- FOREIGN IMPORT RESTRICTIONS

SEC. 301 - RESPONSES TO UNFAIR FOREIGN IMPORT RESTRICTIONS AND EXPORT SUBSIDIES

(a) Whenever the President determines that a foreign country (1) maintains unfair or unreasonable import restrictions impairing the value of trade commitments or burdening U.S. commerce, (2) discriminates unjustifiably or unreasonably against and thereby burdens U.S. commerce or (3) effectively subsidizes its exports to other foreign markets, thereby reducing U.S. sales to such markets, the President (A) shall take all appropriate steps to have such practices eliminated, (B) may withhold benefits of U.S. trade agreement concessions to such country and (C) may impose duties or other restrictions on exports of such country, on a most-favored nation basis or otherwise, and for a time he deems appropriate. In taking such actions, the President shall consider international obligations of the U.S. and the purposes of this Act. The President shall provide an opportunity for bringing such foreign restrictions to his attention but he need do so before taking action only where he deems it feasible and appropriate.

CHAPTER 2 -- ANTIDUMPING DUTIES

SEC. 310 - AMENDMENTS TO THE ANTIDUMPING ACT OF 1921

(a) Where no prior determination has been made, the Secretary of the Treasury shall within six months (nine in a more complicated investigation) after the dumping question has been raised--

(1) determine whether there is reason to believe that the purchase price is less or the exporter's price less or likely to be less than the foreign market value (or its constructed value); and

(2) if he finds affirmatively, publish notice in the FEDERAL REGISTER and withhold appraisement of such merchandise until further order or until he has made public a finding as provided in subsection (a) of the 1921 Act; or

(3) if he finds negatively, so publish, but within three months he may withhold appraisement if he then has reason to believe or suspect the conditions in (1) apply.

This investigation can be extended to 12 months.

(b) Provides that the Secretary or the Tariff Commission shall conduct a hearing on the record at which a foreign manufacturer or exporter or domestic importer may appear as a matter of right and other persons, upon showing of good cause, may intervene. The resulting transcript shall constitute the exclusive record for determination, which record--except for confidential information--is to be available to the public. A finding that foreign merchandise is being, or is likely to be, sold in the U.S. at less than fair value, together with supporting Tariff Commission findings, must be published in the FEDERAL REGISTER.

(c) Defines what expenses, taxes, rebates or other factors affecting the purchase price are to be included or excluded from computation of that price.

(d) Makes similar provisions for computation of exporter's sales price. The result is to make these two computations grounded in similar price treatment and to reflect all factors affecting the price in the U.S.

<u>CHAPTER 3 -- COUNTERVAILING DUTIES</u>

<u>SEC. 330 - AMENDMENTS TO SECTION 303 OF THE TARIFF ACT OF 1930</u>

Certain major changes are made in the law requiring that any bounty or grant on exports by a foreign country be met with a countervailing duty or other restriction in the U.S. of an equivalent amount. The Secretary of the Treasury must make such determination within 12 months of the question being presented to him. Countervailing duties are made applicable for the first time to goods entering the U.S. free of duty. There is a requirement that a finding of material injury to an existing industry or prevention of establishment of an industry must be made for duty-free goods as long as U.S. international obligations require such a finding (the general requirement of a finding of such material injury in all countervailing duty cases does not apply to the U.S. in the case of dutiable imports because of a "grandfather exemption" under the GATT). The U.S., however, is not required to countervail, if such action would be detrimental to national economic interests or if an existing quantitative limitation is deemed an adequate substitute.

CHAPTER 4 -- UNFAIR PRACTICES IN IMPORT TRADE

SEC. 350 - AMENDMENTS TO SECTION 337 OF THE TARIFF ACT

Whenever an article being imported into the U.S. would, if made in the U.S., constitute patent infringement, such importation shall be an unfair method of competition. The complainant or the Tariff Commission, if on its own motion, shall bear the burden of making out a prima facie case. Under such a finding, entry of such article shall be prevented, provided however, that where respondent has under way or will make a bona fide effort to begin within 60 days a court challenge and the court's ruling would be decisive, the Commission shall continue all other proceedings and, if it finds for the patent-holder, shall issue an exclusion order conditional on the court's actions and shall permit continued entry in the meantime on condition that a bond in favor of the patent-holder covering reasonable royalties or damages be posted.

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Any exclusion shall continue until expiration of the patent or until exclusion is no longer necessary to protect the patent-holder's rights. The Tariff Commission can issue a temporary exclusion order--subject to exception where suitable bond is provided--if a prima facie showing has been made and substantial harm to the patent-holder would otherwise result before completion of a full investigation. Any person adversely affected by an action or refusal of the Tariff Commission may seek judicial review in the U.S. Court of Customs and Patent Appeals.

TITLE IV -- INTERNATIONAL TRADE POLICY MANAGEMENT

SEC. 401 - BALANCE OF PAYMENTS AUTHORITY

(a) Whenever the President determines that special import measures are needed to deal with the U.S. balance of payments or to cooperate in correcting an international balance-of-payments disequilibrium, the President is authorized to impose a temporary import surcharge or temporary quotas (if permissible under international trade and monetary agreements) to meet a U.S. deficit or an international disequilibrium; or to reduce or suspend temporarily U.S. duties or increase existing quotas (except where material injury would result) temporarily to deal with a U.S. surplus.

(b) Defines a serious U.S. balance-of-payments deficit in terms of the likely continuation--in the absence of corrective measures--of a substantial deficit which has existed for four consecutive quarters, or a serious decline in the U.S. reserves position or a threat of significant alteration in the value of the dollar in foreign exchange markets. U.S. cooperation in international efforts is authorized when allowed or recommended by the International Monetary Fund. The inverse of the deficit formulae applies to the definition of a persistent balance-of-payments surplus.

(c) Import restrictions should be applied on a most-favored nation basis or similar principles. However, the President can apply such restrictions in a manner not consistent with such principles where he deems such action necessary and after reviewing U.S. international obligations.

(d) Commodity coverage by import restrictions should be broad and uniform except where needs of the U.S. economy require exceptions. No exceptions, however, shall be made to protect domestic industries from import competition.

(e) Quota limitations should not be more stringent than the level of imports in the most recent representative period, and they should take into account further increases in domestic consumption "of such article and like or similar articles of domestic manufacture or production."

(f) Measures under subsection (a)(2) shall be applied consistently with Section 407 of this Act.

(g) The President has flexibility to change these actions at any time.

SEC. 402 - WITHDRAWAL OF CONCESSIONS AND SIMILAR ADJUSTMENTS

(a) Whenever necessary to protect the value of concessions under past trade agreements or to respond to suspension or withdrawal by foreign countries of any such obligation, the President is authorized, when and if he deems it appropriate or necessary and consistent with the purposes of this Act and international obligations of the U.S.--

(1) "to increase any existing duty or other import restriction or provide additional import restrictions; and

(2) to take other actions or withdraw, suspend or terminate the application in whole or in part of the agreement."

(b) U.S. duties or other restrictions pertaining to an agreement are not altered by any withdrawal, suspension or change in that agreement unless the

President acting under authority in subsection (a) increases such existing restrictions or imposes new ones.

(c) No duty may be increased more than 50 percent above Column 2 rates or 50 percent ad valorem equivalent, whichever is higher.

(d) Consistent with international obligations, the President may act on a most-favored nation basis or otherwise.

SEC. 403 - RENEGOTIATION OF DUTIES

(a) Within limits of this section, the President is authorized to make changes in existing duty treatment or continue such treatment pursuant to supplemental tariff agreements entered into to reflect changed circumstances while maintaining "an over-all balance of mutually advantageous concessions."

(b) No such actions in any one year shall be taken affecting more than 2 percent of U.S. imports or with respect to any article the subject of a prior agreement under this section in the preceding 5 years.

SEC. 404 - COMPENSATION AUTHORITY

(a) Whenever actions under Sections 203, 301, 402, 403 or 408 of this Act, increasing restrictions, have been taken, the President (1) shall offer foreign countries opportunity to consult with the U.S. to the extent required by international obligations; and (2) may enter new agreements offering compensatory concessions needed to preserve a general level of reciprocal and mutually advantageous level of concessions.

(b) and (c) Grant authority to make such concessions as are needed, with the limitation that any rate above 5 percent ad valorem or ad valorem equivalent cannot be reduced more than 50 percent.

SEC. 405 - AUTHORITY TO SUSPEND IMPORT BARRIERS TO RESTRAIN INFLATION

(a) Either generally or selectively, the President may temporarily suspend or reduce duties or increase quotas to deal with a period of sustained inflation.

(b) This authority cannot be used where it would contribute to material injury to domestic industry, and such actions cannot apply at any one time to more than 30 percent of U.S. imports.

(c) The President may modify such actions at any time.

(d) He must notify each House within 30 days of the nature and reasons for his action.

(e) Unless authorized by law, no such action can remain in effect more than one year.

SEC. 406 - RESERVATION OF ARTICLES FOR NATIONAL SECURITY OR OTHER REASONS

Articles shall be reserved from reductions or negotiations leading to reductions for national security reasons or other good reasons.

SEC. 407 - MOST-FAVORED NATION PRINCIPLE

Except where specifically provided by law, all concessions shall apply on a most-favored nation basis.

SEC. 408 - AUTHORITY TO TERMINATE ACTIONS

SEC. 409 - PERIOD OF TRADE AGREEMENTS

SEC. 410 - PUBLIC HEARINGS IN CONNECTION WITH AGREEMENTS UNDER TITLE IV.

SEC. 411 - AUTHORIZATION FOR GATT APPROPRIATIONS

TITLE V -- TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED-NATION TARIFF TREATMENT

SEC. 501 - EXCEPTION TO THE PRODUCTS OF CERTAIN COUNTRIES OR AREAS

Most-favored-nation tariff treatment can be denied by the President for national security reasons and shall be continued to be denied to countries not now receiving it except as provided in this Act.

SEC. 502 - AUTHORITY TO ENTER INTO COMMERCIAL AGREEMENTS

(a) Subject to provisions of (b) and (c), the President may authorize entry into force bilateral agreements extending most-favored-nation treatment when they promote the purposes of this Act and are in the national interest.

(b) Bilateral agreements are limited to initial three-year periods, but they are renewable for periods not to exceed three years if the balance of concessions is maintained over their life and provided that foreseeable reductions will be suitably reciprocated by the other party to the bilateral agreement. Bilateral agreements must be suspendable by either party for security reasons. They must also provide for review and re-appraisal.

(c) A bilateral agreement pursuant to subsection (a) enters into force only after 90 days from submission to both Houses have expired without either House by an affirmative vote of a majority of its authorized membership expressing disapproval.

SEC. 503 - ADDITIONAL PROVISIONS

(a) Bilateral agreements may include the following: (1) safeguard arrangements; (2) protection of industrial, patent and copyright privileges; (3) arrangements to settle commercial disputes; (4) trade promotion arrangements; and (5) other commercial arrangements promoting the purposes of this Act.

(b) Nothing here changes domestic law.

SEC. 504 - EXTENSION OF MOST-FAVORED-NATION TREATMENT

(a) The President may extend most-favored-nation treatment either through bilateral agreements pursuant to Section 502 or as a result of accession to a multilateral agreement to which the U.S. is a party.

(b) Most-favored-nation treatment is conditional upon effectiveness of other obligations under bilateral or multilateral agreements.

(c) Reservations of Presidential right to suspend most-favored-nation treatment at any time.

SEC. 505 - MARKET DISRUPTION

(a) Incorporates petition for a Tariff Commission finding of market disruption under Section 201 but requiring simply a finding that "imports. . . are causing or are likely to cause material injury to a domestic industry producing like or directly competitive articles."

(b) Such an affirmative finding will activate import relief provisions of this Act, and the President may adjust imports from this country alone without taking action on imports from other countries.

SEC. 506 - EFFECTS ON OTHER LAWS

TITLE VI -- GENERALIZED SYSTEM OF PREFERENCES

SEC. 601 - PURPOSES

To promote the general welfare, foreign policy and security of the U.S. by participating in an effort by developed nations to provide less developed countries a system of generalized preferences. Congress makes appropriate findings.

SEC. 602 - AUTHORITY TO EXTEND PREFERENCES

Authorizes the President to designate eligible articles, extend duty-free treatment to appropriate beneficiaries and make further supplemental provisions. In doing any such action, the President shall consider the purposes of this Act, consequences on domestic producers of like or directly competitive articles and the extent to which other developed nations make comparable efforts.

SEC. 603 - ELIGIBLE ARTICLES

(a) Requires compliance with Sections 111 through 114 in making findings of eligible articles.

(b) Preferences will only apply to articles imported directly from eligible beneficiary countries with an amount of domestic value-added in such country in excess of a percentage (to be determined by the Secretary of the Treasury) of the appraised value.

(c) Actions pursuant to certain sections of this and other Acts exclude those articles from consideration as eligible articles. When such actions cease to apply, the President may designate the article eligible.

(d) In lieu of actions under Section 203 of this Act, the President may remove the article from the eligible list.

SEC. 604 - BENEFICIARY DEVELOPING COUNTRY

(a) Subject to (b) below, the President may designate any country a beneficiary developing country, considering the purpose of this Title, expression of interest by a country, level of economic development, whether other developed countries are extending such treatment to such country and whether such country has expropriated property at least 50 percent beneficially owned by U.S. citizens, without prompt, adequate and effective compensation.

(b) The President shall not make such a designation where such country is not receiving most-favored-nation treatment due to headnote 3(e) or where such country extends reverse preferences to other developed countries, unless the President is satisfied such preferences will be eliminated before January 1, 1976.

SEC. 605 - LIMITATIONS ON PREFERENTIAL TREATMENT

(a) The President may modify, suspend or withdraw preferences with respect to any country or article.

(b) The President shall withdraw or suspend country designation where conditions in Section 604(b) apply.

(c) When a country accounts for 50 percent or more of U.S. imports of an article or one such article represents $25 million or more of U.S. imports, the President shall end designation with respect to that country on that article unless he finds it in the national interest to continue such designation.

(d) Puerto Rican coffee imports excluded from this Act.

SEC. 606 - DEFINITIONS

SEC. 607 - EFFECTIVE PERIOD OF PREFERENCES

None shall continue more than 10 years past enactment or December 31, 1984, whichever is earlier.

TITLE VII -- GENERAL PROVISIONS

SEC. 701 - AUTHORITIES

Provides for delegations of authority.

SEC. 702 - REPORTS

Makes provision for Presidential and Tariff Commission Reports annually to Congress on progress under the Act.

SEC. 703 - TARIFF COMMISSION

Provides the Tariff Commission necessary authorities to perform its duties under the Act.

SEC. 704 - SEPARABILITY

Normal separability provision.

SEC. 705 - DEFINITIONS

SEC. 706 - RELATION TO OTHER LAWS

Conforms other laws to proposals in this Act. Specifically mentions repeal of the Johnson Debt Default Act--which prohibits private persons from making loans to countries which are in default in the payment of their obligations to the U.S.--and repeal of certain prohibitions against fur and skin imports.

SEC. 707 - CONSEQUENTIAL CHANGES IN THE TARIFF SCHEDULE

SEC. 708 - SIMPLIFICATION AND MODIFICATION OF THE TARIFF SCHEDULES

Provides for maintenance and minor modifications of U.S. Tariff Schedules, with no substantive impact on duty rates.

TREASURY RECOMMENDATIONS ON CHANGES IN TAXATION OF FOREIGN SOURCE INCOME

I. TAX HOLIDAYS

A new section 951(a)(1)(C) would be added to the Internal Revenue Code that would tax U.S. shareholders of a controlled foreign corporation on a current basis as to their pro rata share of the earnings of such corporation, if it is allowed a foreign tax incentive. These provisions would operate independently of exceptions in Subpart F. The provision applies to corporations engaged in manufacturing or processing abroad, provided 10 percent of the unadjusted basis of the corporation's assets are used in manufacturing or processing. Such current taxation would not apply to earnings until investment made after date of enactment--regardless of whether new capital or reinvested earnings--reaches 20 percent of the unadjusted basis of the corporation's assets. There are provisions for normal modernization and replacement of existing facilities.

The Treasury Department will determine what foreign practices constitute tax incentives to investment. These could include both general incentives and specific incentives. A low rate of tax in itself is not a tax incentive. The Executive, subject to Senate approval, could enter bilateral treaties which would make these rules inapplicable to specific incentives. Income treated as distributed under this provision would not be taken into account in computing the over-all foreign tax credit but would be separately computed.

II. CONTROLLED FOREIGN CORPORATIONS EXPORTING TO THE UNITED STATES

In addition to the above, future undistributed earnings of a controlled foreign corporation would be taxed currently where the corporation makes new or additional foreign investment in manufacturing or processing of products exported to the U.S., if the income from such investment is subject to foreign corporate tax significantly below U.S. rates. This provision would also occur in new section 951(a)(1)(C). It would reach the U.S. shareholder's pro rata share of earnings if (1) 25 percent or more of gross receipts come from manufacture and sale of products destined for the U.S. market and (2) the effective tax rate is less than 80 percent of the U.S. tax rate. The provision would not apply until investment after date of enactment exceeds 20 percent of the unadjusted basis of existing manufacturing or processing assets. For both this and the above provision, a branch of a foreign corporation located outside of the country of incorporation will be treated as a separate corporation. Same limitation on computing foreign tax credit as above applies here. The President could exempt companies if in the public interest. The same bilateral income tax treaty provision as above would apply.

III. RECOVERY OF FOREIGN LOSSES

A new subparagraph (3) would be added to section 904(a) of the Code to provide that if a taxpayer sustained a loss (whether ordinary or capital) in a foreign country or possession of the U.S. in a taxable year, then to the extent the loss was not taken into account in such year for purposes of computing the foreign tax credit limitations of section 904(a)(1) or (2), then for purposes of computing the limitation on the foreign tax credit such loss would be taken into account in succeeding taxable years as a reduction of the taxpayer's taxable income from sources within such country or possession. The amount of the reduction in any one year is not to exceed 25 percent of the taxpayer's income from such country or possession computed without regard to such reduction.

The amount of losses not taken into account shall be carried forward in the ten succeeding years until exhausted. Reduction not allowable if loss has been used to reduce foreign tax paid. If all losses not taken into account before business disposed of, remaining losses would be included in the taxpayer's gross income in year property disposed. Section 904(d) will be amended to provide that taxes not allowed as a credit by reason of application of this new section may not be carried back or forward.

Mr. BURKE. Our next witness will be Mr. Lewis, who will appear here at 2 p.m.

The committee stands in recess until 2 p.m.

[Whereupon, at 12:15 p.m., the committee recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Mr. GIBBONS [presiding]. The committee will come to order.

Mr. Lewis, will you come forward.

Mr. Robert G. Lewis is secretary of the National Farmers Union. We welcome you to the committee. Unless you have objection, we will put your whole statement in the record, and you may proceed as you wish.

STATEMENT OF ROBERT G. LEWIS, NATIONAL SECRETARY, NATIONAL FARMERS UNION

Mr. LEWIS. Thank you, Mr. Chairman.

I do have a summary, and I will attempt to keep within the time limit.

The Farmers Union staunchly suports legislation to promote the liberalization of international trade. We support and urge enactment of most of the provisions proposed by the President in the Trade Reform Act of 1973.

We favor the proposed authority for the President to decrease tariffs without limit, including the new procedure to implement agreements on non-tariff trade barriers subject to the right of Congress, on 90 days notice, to disapprove.

We generally favor the changes proposed in title II, relating to "relief from disruption caused by fair competition." But we recommend that the provisions on adjustment assistance in chapter II of this title be revised and strengthened, with the object of reducing the reliance that will be needed on increases in duties, quantitative limitations, marketing agreements, and so on. The worker benefits in the form of training and job search allowances should be strengthened. Also comparable degrees of adjustment assistance should be added for farmers and for manufacturers, for whom increased imports have been and may be in the future a "substantial" cause of economic disadvantage.

We generally approved the provisions of title III for "relief from unfair trade practices." Measures to provide relief in such cases need to be more effective than they are at present.

We favor the provisions of title V to authorize the President, subject to a 90-day congressional veto procedure, to extend most-favored-nation treatment to imports from countries not now receiving that treatment, and we recommend that this be applied to the Soviet Union and mainland China as expeditiously as possible.

However, we doubt that more stringent measures need to be authorized for dealing with balance of payments difficulties. The measures proposed may do more to erode international confidence in the economic stability of the United States than to help promote it.

We adamantly oppose granting to the President the authority he requests to increase tariffs without limit. We fear that unlimited authority for the President to increase tariffs might be used to reverse direction from the liberal trade policies that are proclaimed today. The entire country would suffer disastrously from a return to the protectionism of the Smoot-Hawley era, and the worldwide economic depression and the enormous military and political disasters that would probably result. Farmers would be among the most severely damaged. We strongly recommend that Congress withhold the power requested by the President that could be used toward such an end.

W are sharply disappointed that the provisions of title IV, authorizing the President to grant generalized tariff preferences on imports of products of developing countries, don't do much more to expand the opportunity of the poor and hungry of the world to sell their goods to earn money for buying more of the food they want and need.

The populations of the developing countries are the best potential customers in the world for American farmers. These are the people who are most hungry, and these are the people who will spend the largest proportions of whatever income they can earn to buy more food. A larger share by far of the dollar that is spent for imports of labor-intensive goods from these hungry countries is likely to return immediately to buy food in the United States, than of the dollar that is spent to buy the capital-intensive machine-made products of the richer developed countries. The greatest potential advantage to agriculture of trade liberalization lies in the expansion of world markets for the labor-intensive goods that can be made by the poor and hungry populations of the developed countries. Yet the administration proposal offers only extremely restricted and narrow scope for the expansion of this kind of trade.

We regret and oppose the rejection by the Administration of international cooperation through international commodity agreements that is evident in the administration's expressed policies. We feel that the administration's claims and intentions for this Trade Reform Act are overdrawn as they pertain to agricultural trade.

The administration, in its policy regarding agricultural trade, places primary stress upon eliminating so-called nontariff barriers through negotiations under the authorities to be conferred by this bill.

In the case of the European Community, the main attention centers on the variable levy system. The announced objective is to eliminate or diminish the effectiveness of the variable levy as a "non-tariff barrier" against our agricultural products. This, it is presumed, thereby would allow increased imports of U.S. farm commodities into the European Community countries.

This has an appealing ring in American ears, particularly agricultural ears, but it is all much more easily said than done. For the "variable levy" is an indispensable part of the European Community's farm price support system.

This is what raises the first difficulty. To eliminate, or even to reduce the variable levy is to reduce the level of price support to the European farmer. In most of the countries in the European Community, the percentage of farmers in the total population is two or more times larger than it is in the United States. Farmers carry considerable political weight in the European countries.

The second difficulty is equally formidable. There is no reason to suppose that cutting European farm price support levels will immediately drive farmers off the land and cropland out of production so as to make way for significantly increased volumes of imported grains from the United States.

And there is yet a third difficulty, fully as troublesome as the others. This is the level of prices that the Nixon administration envisions for the farmers of the United States in order to make this strategy work.

The "Flanigan Report" and other statements and indications of administration policy signify that the administration envisions U.S. farm prices at the 1971 level or below.

It is not well understood that the prices now being received by farmers in the United States are near the bottom in the world. This is borne out by the data on wheat prices shown in the table following page 9 in my full statement. Indeed, four out of every five bushels of wheat produced in the world bring to the farmers who grow them more than the American farmer gets for his wheat in the United States.

When the "level of support" for wheat prices in the European Community is related to equivalent prices in the United States, it becomes apparent that it is actually below the current equivalent U.S. wheat price at the farm right now. In the more "normal" 1971 season, the European price was equivalent to only 30 to 40 cents a bushel more than the low prices then being received by the U.S. farmers.

Careful analysis exposes a number of weaknesses in the Administration's agricultural trade strategy which make it extremely doubtful that the promise of its sponsors of substantial balance of payments benefits for the United States can be realized.

1. Most immediately there probably will be a lag of several years before any benefits in expanded export opportunities could be realized. The GATT negotiations are not likely to be concluded until the end of 1975. Any change in European farm prices is not likely even to begin to take effect until the 1976 crop.

2. If the European Community should agree to reduce its farm price supports, the time span over which these price reductions would be applied is likely to be extended over not less than 5 to 10 years.

3. The response by European farmers to reduce grain prices in the way of cutbacks in European production is likely to lag further behind even the probably stretched-out schedule of any price reductions that might be negotiated.

4. The total extent to which the European Community countries are likely to agree to reduce their farm price support is not likely to be sufficient to achieve, by itself, major shifts in production patterns away from grains.

5. Finally, the low price levels that are anticipated for grain farmers in the United States are neither fair to our farmers nor are they adequate to insure the maintenance of U.S. grain production.

Liberalized trade legislation therefore, cannot realistically be expected to yield a panacea in the U.S. balance of payments situation, at least in the short run.

Many improvements in the international trading environment for American farmers can be achieved through the forthcoming trade negotiations, under the authority requested in this legislation. These are eminently worth while and have substantial potential value to American farmers and to the national interest. But we think it is a mistake to accept the overdrawn claims of the administration that liberalized agricultural trade might be a panacea to rescue the American economy from its difficulties in its international accounts.

The Farmers Union contends that international commodity agreements are indispensable for dealing with the problems of international agricultural trade, especially in grains and dairy products.

In my full statement, I review the administration's record in undercutting the International Grains Agreement of 1967, in torpedoing agreement on effective price provisions in the agreement that succeeded the 1967 IGA, and in seeking to drive down farm commodity prices both at home and in world trade.

If the administration instead had employed the leadership and power of the United States to secure effective cooperation and to maintain wheat prices to the mid-point of the IGA price range, the gain to the United States in additional farm income and balance of payments benefits from exports of wheat alone would have totaled more than $1 billion during the four marketing years starting in 1969.

An increase in the price range of the succeeding agreement, to reflect the increase in farmers' production costs, would have added more millions to our national benefit.

In the Russian wheat sales alone, the administration's policies led to a total net loss to U.S. taxpayers and farmers, and to the balance of payments of the United States of about one-third of a billion dollars.

It was not the "Russian wheat sales" alone that has been at fault. It is th overall long-term policy and strategy of the Nixon administration in respect to food and agriculture, of which the Russian wheat sale was a telling illustration.

This food and agricultural policy has caused serious losses to our national interest and to the interests of farmers in other respects. The major failing has been the lack of a coherent program to maintain adequate reserves of food.

Because the Russians were permitted to get a "corner" on the last available supply of grain in the world, our regular customers for grain found themselves at a severe disadvantage in respect both to price and dependability of supply. This has created a powerful incentive for our regular customers for American farm products to pursue national goals of self-sufficiency in food, and promotion of competing sources of supply. And it is giving powerful impetus to potential massive over-production of grains both in the United States and in other competing countries.

Another serious and costly consequence now being felt in our cities as well as in the country as a result of this bad policy is the drastic gyrations of price and supply. This has resulted in heavy costs, economic waste, long-term loss of markets, and ultimately in continuing higher costs to consumers.

The Farmers Union has taken a leading role in studies and in discussions with other farm organizations, both in the United States and in other countries, to develop the outline of a new International Grains Agreement to fit the requirements of these times. A full description of this proposal is included in my full statement.

We commend this proposal to your committee for its consideration and appropriate action.

We believe it is imperative to begin action immediately to negotiate an agreement along the lines of this proposal. We recommend strongly against putting off action on agricultural trade problems until they can be reached in the course of the proposed forthcoming general trade negotiations which would be authorized under the pending bill.

For one thing, there is not time to wait. Even if the requested trade bill is adopted on schedule, the trade negotiations will not begin until early 1974, and there is no real prospect that they can be completed until the end of 1975. This would allow a hiatus of three years—until mid-1976—before any significant agricultural trade reforms that might be negotiated would begin to take effect.

For another, the present International Wheat Convention is due to expire on June 30, 1974.

The International Wheat Council and its staff and facilities should not be allowed to lapse and become dispersed. A new and effective International Grains Agreement should be ready to take effect and to employ this staff and maintain continuity on July 1, 1974.

And for still another and major reason, the trade negotiations, which are to be conducted under the auspices of the General Agreement on Tariffs and Trade (GATT) will exclude two of the world's four largest grain producing and consuming countries—the U.S.S.R. and China.

Those countries will refuse, as a matter of strict principle, to participate in GATT negotiations. The potentials of each of these great countries as importers of grain, and especially the U.S.S.R. also as a potential exporter, make it unrealistic to exclude them from participation in negotiations and operations of any arrangement concerning international trade in cereals.

And finally, as I detailed in my statement, we believe the Administration's approach to trade in agricultural commodities simply will not work to expand our exports sufficiently to satisfy either the income requirements of American farmers or the balance of payments goals of the United States.

It would be far better and more realistic to revise the spirit and the precedents of a generation of experience in international economic cooperation in agricultural trade, and to construct a new, modernized international grains agreement that provides solutions for the important but by no means insurmountable problems posed by today's conditions. A huge and growing volume of agricultural trade is already in being. Let's see if we can get fair prices for the grain we are already exporting instead of looking for an expansion of volume at cut-rate prices to try to get more dollars, at the expense of American farmers, to solve our balance of payments problems.

Our major export customers are evidently willing to agree to higher levels of grain prices, which would yield to us moderately higher per unit returns from our exports. The higher prices will yield more balance-of-payments benefits to us. We could have saved that one-third of a billion dollars that the Russians got by having their cut-rate price. The other exporting countries are capable and ready to cooperate in managing world export supplies. An expeditious gain both in farm income and in our trade balance can be realized in this way, without compromising our prospects for achieving the reforms of trade rules and non-tariff barriers which are the proper objects of the general trade negotiations.

International trade in two major groups of commodities—grains and dairy products—is most immediately in need of attention from governments, with the view of achieving effective international cooperation.

Therefore, we recommend that your Committee and the Congress take whatever steps it can to urge the Executive Branch to act immediately to join with other nations in convening a negotiating conference to prepare international agreements on grains and dairy products.

Thank you, Mr. Chairman.

[The prepared statement and other material submitted by Mr. Lewis follow:]

Statement of Robert G. Lewis, National Secretary, Farmers Union

The Farmers Union staunchly supports legislation to promote the liberalization of international trade. We support and urge enactment of most of the provisions proposed by the President in the Trade Reform Act of 1973. Farmers of the United States have a large and vital stake in liberal trade--both as producers with farm commodities to sell and industrial goods to buy for use in farm production, and as consumers.

Some provisions of the Administration bill have the potential of restricting trade. We are adamantly opposed to those provisions.

We are disappointed in other features of the bill which, we believe, fall far short of fulfilling the interest of farmers, and of the national economy generally, in opportunities to expand trade.

And we object to and oppose a major premise of the Administration as to the degree of reliance that can and should be placed on trade liberalization alone insofar as the problems of agriculture and agricultural trade are concerned.

I will proceed to describe briefly our position on each of the foregoing points.

Provisions to Liberalize Trade

We favor the proposed authority for the President to decrease tariffs without limit, including the new procedure to implement agreements on non-tariff trade barriers subject to the right of Congress, on 90 days notice, to disapprove.

Better Import Relief Needed

We generally favor the changes in existing provisions proposed in Title II, relating to "relief from disruption caused by fair competition". Workers, businessmen, and farmers who are economically disadvantaged by changes in trade regulations should be spared from the cost of adjusting to the increased imports that result therefrom and which benefit the national economy generally. But we recommend that the provisions on adjustment assistance in Chapter II of this title be revised and strengthened, with the object of reducing the reliance that will be needed on increases in duties, quantitative limitations, marketing agreements, and so on. The worker benefits in the form of training and relocation and job search allowances should be strengthened. Also, comparable degrees of adjustment assistance should be added for farmers and for manufacturers, for whom increased imports have been and may in the future be a "substantial" cause of economic disadvantage.

We generally approve the provisions of Title III for "relief from unfair trade practices". Measures to provide relief in such cases need to be more effective than they are at present, and to be administered with greater diligence. The frustration and cynicism that arise from the failure from present measures to be applied effectively is a major contributor to the reluctance of many domestic producers to support or accept liberal trade policies.

We doubt that more stringent measures need to be authorized for dealing with balance of payments difficulties and so on. The additional authority requested may merely encourage greater laxness and mismanagement in dealing with problems affecting the national economy. The measures proposed may do more to erode international confidence in the economic stability of the United States than to help promote it.

Ease Trade With Communists

We favor the provisions of Title V to authorize the President, subject to a 90-day Congressional veto procedure, to extend most-favored-nation treatment to imports from countries not now receiving that treatment, and we recommend that this be applied to the Soviet Union and mainland China as expeditiously as possible.

Oppose Tariff Increase Authority

We adamantly oppose granting to the President the authority he requests to increase tariffs without limit.

We are mindful of the Administration's insistence that its true goal is trade liberalization, and that it does not intend or expect to use the authority it is requesting to reverse from that direction.

But we recall that no less adamant protestations were being made until recently by the Administration that compulsory wage and price controls would never be established. The last such protestations were followed within weeks by a direct reversal, with a total wage-and-price freeze. This then has been followed in turn with another nearly complete turn around, to the present Phase III program.

We recall also recurrent insistence until recently that the U.S. dollar would not be revalued. Two successive devaluations within less than two years have been the outcome of that.

In terms of agricultural policy itself, we witnessed in 1972 the heaviest spending in history to support farm prices and withhold 60 million acres from production. This is now being followed by a drastic and sudden reversal to almost unlimited production, and a Presidential call for all farm income-supplementing payments to be phased out totally within three years.

We do not have confidence that unlimited authority for the President to increase tariffs would not be used to reverse direction from the liberal trade policies that are proclaimed today. The entire country would suffer disastrously from a return to the protectionism of the Smoot-Hawley era, and the world-wide economic depression and the enormous military and political disasters that would probably result. Farmers would be among the most severely damaged. We strongly recommend that Congress withhold the power requested by the President that could be used toward such an end.

Should Expand Markets for Hungry

We are sharply disappointed in the provisions of Title VI, authorizing the President to grant generalized tariff preferences on imports of products of developing countries.

The populations of the developing countries are the best potential customers in the world for American farmers. These are the people who are most hungry, and who will spend the largest proportions of whatever income they can earn to buy more food. A larger share by far of the dollar that is spent for imports of labor-intensive goods from these hungry countries is likely to return immediately to buy food in the United States, than of the dollar that is spent to buy the capital-intensive products of the richer developed countries. The greatest potential advantage to agriculture of trade liberalization lies in the expansion of world markets for the labor-intensive goods that can be made by the poor and hungry populations of the developing countries. The expansion of such trade also affords enormous potential opportunities for other capital-intensive and technology-intensive goods and services of the United States. Yet the Administration proposal offers only extremely restricted and narrow scope for the expansion of such trade. Thus this legislation fails to rise to the truly large challenge of our time. If nothing better is done than what the Administration proposes relating to expansion of trade in labor-intensive goods, the forthcoming round of trade negotiations is doomed to disappoint many of the hopes that have been engendered for it.

Trade Bill Not Full Answer

I have addressed myself so far to what the trade bill could and should be expected to achieve. I will turn now to what we regard as the serious misconception of what the approach toward trade liberalization that is taken in this bill can be expected to accomplish in terms of expansion of agricultural trade.

First let me describe what the Administration's strategy and expectations appear to be:

> Major stress is focussed on the elimination of so-called "non-tariff barriers". In the case of the European Community, the main attention centers on the variable levy system. The announced objective is to eliminate or diminish the effectiveness of the variable levy as a "non-tariff barrier" against our agricultural products. This, it is presumed, thereby would allow increased imports of U.S. farm commodities into the European Community countries.

Serious Problems Overlooked

This has an appealing ring in American ears. But it is all much more easily said than done. For the "variable levy" is an indispensable part of the European Community's farm price support system.

This raises the first difficulty. To eliminate, or even to reduce, the variable levy is to reduce the level of price support to the European farmer. In most of the countries in the European Community, the percentage of farmers in the total population is two or more times larger than in the United States. Farmers carry considerable political weight in the European countries. Beyond that, the non-farming European population is substantially more understanding and sympathetic to the interests and needs of their farm families than is the case in the United States.

The second difficulty is equally formidable. There is no reaaon to suppose that cutting European farm price support levels will immediately drive farmers off the land and cropland out of production so as to make way for significantly increased volumes of imported grains from the United States.

Envisions Low U.S. Farm Prices

And there is yet a third difficulty, fully as troublesome as the others. This is the level of prices that the Nixon Administration envisions for the farmers of the United States in order to make this strategy work.

The "Flanigan Report" and other statements of Administration policy signify that the Nixon Administration envisions U.S. farm prices at the 1971 level or below. Early this year President Nixon proposed to Congress that the 75 percent of parity price support floor for dairy products be abolished, and that all income-supplementing payments be phased-out within three years. Thus the Nixon farm policy would leave for the protection of American farmers only stand-by authority to make "land retirement" payments. Other Administration spokesmen have suggested that a commodity loan program, at very low levels, be continued also.

To sum up: The farm price levels upon which the Nixon Administration's agricultural export strategy depends are not acceptable --much less fair--to American farmers.

Indeed, it is doubtful that farmers in the United States can even continue for long to produce at price levels such as the Administration proposes, much less be able to increase their production so as to sustain the huge expansion in exports that the Administration projects.

World Wheat Prices Analyzed

It's time to stop, look, and listen. There are serious dangers for the country generally, as well as for farmers, in proceeding on such a route.

The primary assumption in the Administration's agricultural trade policy is that the European Community grain price levels are extravagantly too high. It is instructive to examine that assumption critically.

According to the International Wheat Council, the average level of support for wheat in the European Community for 1971, the last year for which data are now available, was $2.74 per bushel. The arena where European wheat actually competes with American wheat, however, is in the great port and milling cities of Europe, of which Rotterdam is a good illustration. In order to compare the European wheat price with the price received by farmers in the United States, it is necessary to take account of transportation and handling charges. Table I, following, shows approximately what these charges amount to. To sum up, the European support price of $2.74 per bushel at the farm in Europe is equivalent to a price of approximately $2.20 per bushel for American wheat at the farm in central Kansas.

That is the figure--$2.20 per bushel for wheat at the Kansas farm--which is the target at which the Administration's farm trade strategy takes aim. Its goal is to reduce that price enough so that substantial reductions can be expected in European grain production, thereby enlarging the scope for American exports at lower prices.

This brings a vital question sharply into focus: At what price are American farmers willing to compete for expanded exports?

The average return to the farmer for wheat from the 1972 crop after adding the average value of government payments, amounts to $2.32 per bushel. In Kansas, the average is $2.26 per bushel. These prices are somewhat higher than the equivalent average level of support to the European wheat farmer in 1971.

Table I

Comparison of levels of support wheat, U.S. and E.C. 1971

	(U.S.$ per bu.)
Average level of support, European Community, at farm, 1971	$ 2.74
PLUS:	
Estimated river freight, main producing areas in France to Rotterdam:	.20
Equivalent E.C. wheat price in Rotterdam:	2.94
LESS:	
Ocean freight, Houston/Galveston to Rotterdam, at current quotations $12/long ton	.32
Rail receipt and unloading to ship at Gulf ports:	.035
Rail freight, Reno County, Kans., to Houston:	.312
Truck receipt and loading out to rail car, country point in Reno County, Kans., Uniform Grain Storage Agreement (CCC) rate:	.07
Equivalent price at farm, Reno County, Kans:	2.203

* * * * *

Comparisons:	United States	Kansas
	(U.S. $ per bu.)	
Average level of support for U.S. farmers complying with wheat program 1971	$ 1.85	
Average level of support for U.S. farmers not complying with wheat program 1971	1.31	
* * * * *		
Average value of production at market prices of wheat 1971 crop	1.34	$ 1.32
With average value of government payments added:	1.89	1.80
* * * * *		
Average value of production at market prices of wheat crop 1972	1.77	1.82
With average value of government payments added:	2.32	2.26

SOURCES: International Wheat Council and U.S. Dept. of Agric. data.

Prices for the 1971 wheat crop reflect a more "normal" situation than in 1 72. In 1971, the average value of wheat at the farm in the United States, including the average value of government payments, came to $1.89 per bushel. The Kansas average was $1.80. These price levels are 30 to 40 cents a bushel below the European support level equivalent.

But are 1971 wheat prices adequate for U.S. farmers? And would a reduction of 30 to 40 cents a bushel in the European support level greatly reduce European grain production? And if so, how soon?

Now we begin to perceive the essential assumption about farm price levels for American grain farmers upon which the Administration's agricultural trade strategy depends.

President Nixon has recommended that all income-supplementing payments to American farmers be phased-out within three years. If we assume that production and marketing conditions for the 1971 crop were more or less normal, the market prices received by farmers for their wheat in that year would be illustrative of the level of prices farmers in the United States could expect once the President's proposal becomes fully operative. Exclusive of government payments, farmers in the United States received prices averaging just over $1.30 for the 1971 wheat crop.

<u>U.S. Farm Prices Already Low</u>

It is not well understood that the prices now being received by farmers in the United States are near the bottom in the world. This is borne out by Table II, following. It shows that farmers in the United States are getting prices far lower than farmers in most countries get for the wheat they produce.

<u>Indeed, four out of every five bushels of wheat grown in the world brings to the farmers who produce it more than American farmers get for wheat in the U.S.A.</u>

Only in Canada, Argentina, and Australia are significant quantities of wheat produced at prices to farmers lower than those received by farmers in the United States. These four countries account for approximately 20 percent of the total world wheat production. Although prices are not reported in the Soviet Union and China on a basis readily comparable, it can be assumed that their cost of production exceeds that of the United States. Thus 80 percent of the world's wheat production earns a higher price at the farm than in the United States.

Table II

Basic Support Prices for Wheat, 1969/70 to 1971/72, Countries Reporting to International Wheat Council

Country	Basic Support Price in U.S. $ per Bushel		
	1969/70	1970/71	1971/72
Austria	2.59	2.59	2.59
EEC:	2.69	2.69	2.74
Belgium	2.65	2.65	2.70
France	2.49*	2.28	2.54
Germany, FR	2.58*	2.58	2.63
Italy	2.51	2.51	2.56
Luxembourg	2.61	2.61	2.66
Netherlands	2.67	2.67	2.72
Finland	4.08	4.08	4.02
Greece	2.36	2.36	....
Ireland	2.26	2.26	2.28
Norway	4.27	4.42	4.42
Portugal	3.12	3.12	3.82
Spain	2.59	2.59	2.62
Sweden	2.74	2.74	2.74
Switzerland	4.29	4.29	4.86
United Kingdom	1.86	2.01	2.10
Yugoslavia	2.22	2.50	....
Canada	1.39	1.47	1.35
Mexico	1.99	1.99	1.99
United States:**			
(Program Participants)	1.89	2.08	1.85
(Non-participants)	1.24	1.33	1.31
Argentina	1.28	1.29	1.21
Brazil	2.99	3.11	2.64
Chile	1.78	1.71	....
Ecuador	1.59	1.25	1.25
India	2.76	2.76	2.76
Japan	4.16	4.46	4.76
Pakistan	2.60	2.60	....
Syria	3.60	....	....
Turkey	2.42	1.54	1.87
Egypt (Arab Rep. of)	2.08	2.08	2.61
Kenya	1.76	1.76	....
Libya	3.81	3.81	....
Morocca	2.37	2.37	....
South Africa	2.54	2.57	2.69
Tunisia	2.70	2.70	2.70
Australia	1.64	1.65	1.81
New Zealand	1.62	1.62	1.79

SOURCE: Table 16, World Wheat Statistics 1972, International Wheat Council, London, 1972.

* Converted at rates current at the beginning of each country's crop year.

** Prices shown for U.S. are from Wheat Situation, Nov. 1972, ERS, USDA, and reflect season average price received by program participants, and by non-participants in the wheat program.

The price of wheat is a fairly good yardstick for measuring farm prices in general within various producing countries. Differing bases for quotation makes comparisons between countries difficult and uncertain for most farm commodities. However, wheat is widely produced and widely traded, and wheat pricing and trade have been monitored for many years by the International Wheat Countil. The price of wheat, therefore, is well suited for general comparison of farm price levels between countries.

Low-Price Strategy Has Flaws

This analysis exposes a number of weaknesses in the Nixon Administration's agricultural trade strategy which make it extremely doubtful that the promises of its sponsors of substantial balance of payments benefits for the United States can be realized:

1. Most immediately, there probably will be a lag of several years before any benefits in expanded export opportunities could be realized. The GATT negotiations are not likely to be concluded until the end of 1975. Any change in European farm prices is not likely to begin to take effect until the 1976 crop.

2. If the European Community should agree to reduce its farm price supports, the time span over which they would be applied is likely to be extended over not less than five to ten years.

3. The response by European farmers to reduced grain prices is likely to lag further, behind even the probably stretched-out schedule of any price reductions that might be negotiated.

4. The total extent to which the European Community countries are likely to agree to reduce their farm price support is not likely to be sufficient to achieve, by itself, major shifts in production patterns away from grains.

5. Finally, the low price levels that are anticipated for grain farmers in the United States are neither fair, nor adequate to insure continuous expansion in U.S. grain production.

Liberalized trade legislation therefore, cannot realistically be expected to yield a panacea in the U.S. balance of payments situation, at least in the short run.

Many improvements in the international trading environment for American farmers can be achieved through the forthcoming trade negotiations. These are eminently worth-while and have substantial potential value to American farmers and to the national interest. But we think it is a mistake to accept the overdrawn claims of the Administration for liberalized agricultural trade as a panacea to rescue the American economy from its difficulties in its international accounts.

Need International Commodity Agreements

The Farmers Union contends that international commodity agreements are indispensable for dealing with the problems of international agricultural trade, especially in grains and dairy products.

We regret that the Nixon Administration has turned its back on this form of international cooperation. It offers far more realistic and more substantial promise to the United States of increased balance of payments benefits than the dubious strategy of "market oriented" farm commodity pricing.

From its first months in office in 1969, the Nixon Administration has pursued a policy of seeking to drive down farm commodity trading levels, both at home and in the world market. This is a policy designed primarily by and in the interest of agents and supporters of the international grain trading companies. It is consistent with the policies that have been espoused down through the years for a half-century, first in opposition to the McNary-Haugen bill in the 1920's, then in opposition to the farm programs developed in the 1930's, and thereafter through the succeeding decades to the present time. It is the same policy and philosophy whose most articulate spokesman was Ezra Taft Benson, Secretary of Agriculture for eight years in the 1950's, and which today has been revived by Benson's lieutenants.

When this Administration took office in 1969, the pricing provisions of the International Grains Agreement of 1967 were in effect. The price range for the leading U.S. "reference wheat"--Hard Red Winter No. 2, ordinary protein, at Gulf port locations--was $1.73 to $2.13 per bushel. The actual price at which this wheat was then being traded was about at the minimum of the IGA range.

Within a few months, the trading prices of U.S. wheat had been reduced sharply--by 30 cents per bushel, to only $1.42, far below the IGA minimum. This was done by deliberate action of U.S. Department of Agriculture officials. The export subsidy was increased, which resulted in reducing the net cost to exporting companies of obtaining wheat for sale abroad. Our competitors reduced the export prices of their wheats also, but by smaller amounts than the United States.

Except for a brief respite in 1970 when the corn leaf blight forced all grain prices upward, U.S. wheat export prices were held at a comparatively low level of $1.63 per bushel or below until long after the Russian purchases last year had become known and had caused a sharp increase in the domestic wheat price. This was confirmed by the General Accounting Office on the basis of its investigations of the sales to the Soviet Union.

In other ways also the Administration has blocked international cooperation in agricultural trade:

> The United States delegation appears to have torpedoed agreement on price provisions when the current International Wheat Convention was being negotiated at the expiration of the International Grains Agreement of 1967.
>
> The Administration has failed to carry out the unanimous Resolution of the United States Senate to negotiate price provisions in the current wheat agreement.
>
> Finally, the Administration has repeatedly declared its opposition to concluding new international commodity agreements having effective pricing provisions.

If the Administration, instead of scuttling the International Grains Agreement and drastically cutting world wheat prices, had employed the leadership and power of the United States to secure effective cooperation and to maintain wheat prices at the midpoint of the IGA price range, the gain in additional wheat income and balance of payments benefits to the United States would have totalled more than $1 billion during the four marketing years from mid-1969 to the present. An increase in the price range of the succeeding agreement, to reflect the increase in farmers' production costs, would have added more millions to our national benefit.

The costly failure of the Administration's grain pricing policies and marketing system provides a useful object lesson on the potential benefits to the United States, and to the American farmers, that can be achieved through effective international cooperation.

The USSR purchased 440 million bushels of U.S. wheat in 1972 at a cost of $1.63 to $1.65 per bushel. If prices had been maintained at $1.93 the mid-point of the old IGA price range, the USSR would have paid a minimum of $125 million more to the United States for the wheat they purchased.

But this does not take account of the rise in wheat prices to the maximum of the price range that such an unusual demand would occasion under normal operations of an international commodity agreement. Nor does it take account of the increase in the price range, to reflect increases in farmers' costs, that should have been negotiated in a new international grains agreement to replace the 1967 agreement when it expired.

These elements would have raised the price to be paid by the USSR by an additional $200 million, to a total of about $325 million more than they actually paid.

Even so, the cost per bushel to the Russians would no more than have approximately equalled the actual cost being paid by other export buyers who are our regular customers for U.S. wheat.

Instead, according to investigations by the General Accounting Office, the United States government paid out $300 million in excessive and unnecessary subsidies to grain exporters on the wheat they are delivering to the Russians.

The total net loss to U.S. taxpayers and farmers, and to the balance of payments of the United States, that has resulted from the Administration's wheat pricing policies totals approximately one-third of a billion dollars for the Russian wheat deal alone.

Would the USSR Pay More?

Of course questions may be raised as to whether the USSR would have purchased wheat from the United States, or at least such large quantities, if world market prices had been maintained at the levels consistent with the pricing provisions of the International Grains Agreement. But there appears to be little reason to believe that the USSR decisions would have been substantially different.

For one thing, there was nowhere else in the world to go for additional grains when the extent of the USSR needs became apparent early in 1972. As was noted by the Comptroller General of the United States in his testimony before the Senate Committee on Agriculture and Forestry on March 8, the United States government was informed beginning as early as January 1972 that wheat from the United States dominated the world's markets because of shortages in the other supplier countries. Indeed, the Foreign Agricultural Service of the U.S. Department of Agriculture had completed a study and reported in April 1972 as follows:

> "In the short run, therefore, if the USSR were to enter the world market looking for a large tonnage of grain in addition to the wheat which it has already purchased from Canada, it would have to be content with relatively small quantities from several different suppliers, unless it were to buy from the United States."

For another thing, the USSR has participated in the International Wheat Agreement in the past, and has both exported and imported wheat at prices within the range that was provided in the International Wheat Agreement. There is no reason to suppose that the USSR would have objected fundamentally to paying for wheat at prices falling within an internationally-negotiated range deemed to be fair both to producers and consumers--excepting of course the usual buyer's preference that the price be lower rather than higher.

Finally, it might be argued that the quantity purchased by the Russians would have been smaller at higher price levels. But as sellers, we should not object to getting as much or more money out of a somewhat smaller quantity sold. Undoubtedly the Russians bought our grain because they needed it.

True, the Soviet Union might have bought smaller quantities if the price had been as high as was paid by other buyers in 1972. This might at least have reduced their interest in buying for additions to their stocks.

But whatever element of buying for stocks that might have been foreclosed if higher prices had been in effect in 1972, it would eventually have been expressed at some other time and place in the world market--either in import purchases at a later date, or in reduced exports from Russian-produced supplies at some later date when production has returned to normal--and the effect on our export sales volume would have been approximately the same in the long run.

Lack of Reserves is Also Problem

Serious failures have become evident in other aspects also of the Administration's grain marketing policies and operations. These are attributable mainly to the lack of adequate and effectively-managed reserves.

The dramatic events of 1972 demonstrate that the world supply of grain was not and is not adequate for all the needs of the world's people.

We now lack an adequate margin of safety against the possibility of a crop failure in 1973 following the massive and widely-distributed crop failures of 1972. The economic dislocations and inconvenience and costs resulting from the 1972 crop difficulties would give way to economic calamity and widespread suffering if production difficulties of equal magnitude should occur this year.

To say this is not merely to borrow imaginary trouble. It is to take note that the best indication of what might happen in the future to affect agricultural production is what has happened before. We have had ample experience that testifies that the world's present food reserves leave mankind exposed gravely to hazard from calamities of Nature fully within the range of living experience.

Hurts Steady Customers for U.S. Grain

Another unfortunate consequence is the unfavorable impact that the Russians' sudden demands have exerted upon the regular and reliable steady customers for U.S. grain.

It is ordinarily viewed as sound business practice to give reasonable protection to the interests of the steady customer, and certainly so in preference to the some-time competitor who suddenly finds himself in short supply.

> But because of the weaknesses and failures of the Administration's commodity marketing policies, the only "cheap food" in the world today is what the Russians bought at bargain prices from Uncle Sam.

Another serious and costly consequence is the disruption of food and livestock industries that has occurred as a result of the drastic gyrations of price and supply. This has resulted in heavy costs, economic waste, long-term loss of markets, and ultimately in continuing higher costs to consumers.

American farmers, and the national interest of the United States, will suffer for a long time from these side-effects of the present program's inadequacies. One already visible result is the impetus that has been given to potential massive over-production of grains, both in the United States and in competing countries.

Another that is less immediately visible is the incentive to national goals of self-sufficiency in food that is provided by the current experience. The readiness of high-cost food-deficit countries to relax their import bars and to place their reliance on imported supplies must surely have been seriously dampened by the surprises that were sprung at them last year.

Might Lead to More Competition

A closely related, but likewise not immediately visible consequence, is the incentive to our regular import customers to invest in and promote the development of farm production in countries having substantial potential agricultural production resources.

There are hundreds of millions of acres in Australia, Thailand, the countries of Eastern Africa, and Brazil, among others, that are suitable for efficient production of grain and other crops. This farm land needs only the investment of needed funds for development and the importation of modern agricultural management and technology to become actively competitive with American farmers and other traditional suppliers for the world export market. Both Japan and Western Europe possess the economic and political capability to hedge their bets on food procurement in this manner. This potential source of competition, and the possibility that it might be developed under contract terms that would provide favored access to the import market, deserve careful attention from policy makers in the United States.

The message in all of this for American farmers should be loud and clear:

> As responsbble suppliers, we cannot afford to ignore the need to provide and maintain ample reserves of food to protect our export customers against the risk and cost and inconvenience of gross instability in both prices and supplies of basic farm commodities.

None of the international wheat or grains agreements of the past has included provisions for reserve stocks. But this does not mean that a stocks-holding program is not needed.

In the international wheat or grains agreements of the past, the necessity of providing for stocks-withholding was avoided because the job was done for the world by the United States and Canada.

The two North American countries, at the beginning of the

1972-73 marketing season, control nearly 100 percent of the world's reserve stocks of grain. Throughout the period from World War II until today, from 90 percent to 100 percent of the world's grain reserves have been maintained in the United States and Canada.

"Supply Management" Tool Needed

The stocks-holding programs of the United States and Canada have served also as a tool for managing supplies on the world market.

> An international commodity agreement is basically like a domestic farm price support program. In order to make its pricing provisions effective, it must provide for an effective means of keeping supply in balance with demand at the level of prices that is desired.

The stocks-holding practices of the United States and Canada have constituted the primary determinant of the world wheat price structure throughout the decades since World War II. Only within the past few years has Australia developed a significant stocks-holding capability and policy of its own.

The maintenance of world wheat trading prices within the range specified in international wheat and grains agreements since World War II, therefore, has been dependent upon bilateral cooperation between the United States and Canada, carried out within the context of international consultation and review under the framework of the International Wheat and Grains Agreements.

U.S. and Canada Stabilized Prices

This system of international cooperation has succeeded in maintaining world wheat prices at levels substantially higher than they would have been during most of the years since World War II.

It has also succeeded in providing wheat to importing countries at prices below the maximum in those times of extremely short supplies when world market prices were higher than the Agreement maximum.

It was the failure of the old North American partnership to continue to work that accounts primarily for the collapse of the 1967 IGA. The two countries in the past had been able to exercise discipline over the prices at which wheat was offered by each to the world market, so that they shared that portion of the total world wheat market that was available to the two of them. The two countries thereby took upon themselves the role of residual suppliers in the world wheat trade. That is, while other suppliers traditionally sold out all the wheat they had available each year, the United States and Canada divided the remaining market between themselves.

Supplies Will Be "Managed"

For several reasons, it is probably not feasible nor realistic to expect that the governments of the United States and Canada can or will ever again accept the role of residual suppliers to the world grains market, no matter how well they might be able to work together to divide the responsibility. Other grain producing countries will have to take up their share of the burden. This gives rise to the central issue relating to the present feasibility of an international arrangement for wheat or grains:

Can an internationally-approved program be devised and operated to distribute in a satisfactory way the costs and benefits of a world grains stocks-withholding program?

If world demand for grain cannot be expanded fast enough to keep pace with the expansion of supplies at a given level of prices, then some other kind of positive means must and will be used, for better or worse, to "manage the supply" that is put on the market in order for prices to be maintained at a desired level. Positive and rational means for managing supplies are needed even in a generally-expanding world market, in order to avoid short-term instabilities caused by weather and other uncertainties. Positive action of the scale needed can be undertaken only by governments.

International action to manage supplies could take one or more of four widely-recognized forms:

1. The withholding of stocks from market, as practiced in the United States and Canada;

2. The distribution of surplus stocks in non-commercial channels, as in food aid programs, so as not to affect normal market demand;

3. By limiting production;

4. By depressing the prices paid to farmers, so as to discourage production.

Each one of these four possible means of managing supplies probably deserves some place in a world grain production and marketing system. The proper balance can be negotiated only through a careful weighing and balancing of the interests of farmers and consumers, and of various national governments and their publics. The issues in such a negotiation are surely among the most vital that come before any government for resolution. They are issues literally of "bread and butter"--nothing less in importance than life and death. They are issues far too critical to leave to the vagaries and accidents of weather and the free market.

Grains Agreement Proposed

I will now turn to a brief summary description of the proposed International Grains Agreement which has been developed by the Farmers Union of the United States and representatives of other national farm organizations which are members of the International Federation of Agricultural Producers:

1. Multi-lateral treaty. The proposal calls for a treaty which, in effect, would constitute a contract between countries that buy and countries that sell wheat and other grains in international trade. Its aim is for a "bargain" to be struck between the two groups of countries with balancing rights and obligations of each side toward the other. The Agreement would be administered by a Council, on which all participating countries would be represented, with each country having a number of votes corresponding roughly to its relative importance in the market.

2. Coverage. Wheat and cereal feed grains would be covered.

3. Prices. A "range" of prices would be established by negotiation within which countries participating in the agreement would buy and sell grain to each other. These prices would be, by agreement, deemed fair both to producers and to consumers of grain.

The International Grains Agreement of 1967 provided a price range for each of several types of wheat. One of the major "reference wheats" was U.S. Hard Red Winter No. 2 (ordinary protein), for which the price range was $1.73 to $2.13 per bushel, FOB Gulf of Mexico ports. When those prices are adjusted to reflect the change in farmers' production costs and expenses (parity index) since that time, it results in a present-day range from $2.00 to $2.47 per bushel. This might have value as a starting point for considering what the price range should be in a new agreement. Prices of other grains would be related to an agreed range of "reference prices" for corn, which would in turn have been established at some agreed relationship to the agreed price range for wheat.

4. Obligations of Importing Countries. Importing countries would be obligated to buy specified percentages of their total requirements for grain from exporting country members at not less than the agreed minimum price.

5. Obligations of Exporting Countries. Each exporting country would be obligated to supply quantities of grains equal to each importing country's average past purchases from the respective exporting country at prices not exceeding the agreed maximum price. Exporting countries as a group would be obligated to supply any needs of member importing countries that could not be filled by a specific exporting country which had supplied the importer in the past. Each exporting country's share of the world market would grow or be reduced over time to reflect its actual performance in producing for and supplying the world's trade requirements.

6. Marketing. The primary means for making the agreement effective is the management of the supply of grain put onto the market so as to keep prices within the agreed range. A part of the total estimated world volume of sales for the year would be allocated to each exporting country, and any grain produced in any country in excess of its share of the world's export sales would have to be either (a) used domestically; (b) distributed for food aid; (c) added to the World Food Reserve; (d) stored as part of the country's own National Reserve; or (e) used domestically or for export as an offset to a reduction in production under the country's domestic supply management program.

7. Market Access. Importing countries would guarantee to buy specified percentages of their total requirements from exporters. This would guarantee a share of their market, plus a share of their market growth, to exporting country members. If an importing country should increase its production in any year to more than enough to supply the difference between its import obligation from exporters and its total requirements, it would be required to dispose of the excess outside of world trade channels by one of the methods listed above in paragraph 6. (a) through (e).

8. Reserves. Two categories of reserve stocks would be established:

A. World Grain Reserve. Exporting countries would be required to hold and maintain shares of the World Grain Reserve related to the proportionate share of each in total world export sales of grain. The main purpose of this reserve is to underwrite the exporter's guarantee of ample supplies for fulfilling the import entitlements of each of its importer-customers at the maximum price in time of world shortage. With the consent of the Council (requiring a majority of both exporting and importing country votes) an exporter could sell stocks from the World Grain Reserve within its custody for other needs. The cost of maintaining stocks in the World Grain Reserve would be borne by the exporting country in whose custody they are stored, and would be compensated by the level of prices agreed to by importing country members.

B. National Grain Reserves. Any country could, at its own expense, maintain its own stocks for use as it sees fit, except that these stocks could be sold in the commercial export market only within the country's agreed share of the total world grain sales for the year. These stocks would be managed by each country as part of its own "national food reserve" and "supply management" programs. Each country could solve its supply management problems in whatever way it prefers, either by storing the surplus, using it for food aid outside commercial world trade channels, using it to meet shortages when they occur either for domestic or export requirements; or by drawing on stored supplies to off-set current reductions in production. Most countries would probably want to maintain some level of stocks as security against short crops or to add to their assurance of stability of supplies.

9. Food Aid. Exporting and Importing countries would share in the cost of supplying an agreed quantity of food aid to poor countries. Any country could supply additional food aid if it wanted, but under agreed guidelines to avoid interfering with commercial trade.

10. Less-Developed Country Members. Countries with large numbers of unemployed and low-income people could receive agreed quantities of free food supplies to "tie-in" with their purchases of food at agreement prices.

* * *

We commend this proposal to your committee for its consideration and appropriate action. This proposal conforms to our views of the needs and interests of farmers, and of the public, of the United States.

We believe it is imperative to begin action immediately to negotiate an ageeement along the lines of this proposal. For a number of important reasons, we recommend strongly against putting off action on agricultural trade problems until they are reached in the course of the proposed forthcoming general trade negotiations.

For one thing, there is not time to wait.

Even if the requested trade bill is adopted on schedule, the trade negotiations will not begin until early 1974, and there is no real prospect that they can be completed until the end of 1975. This would allow a hiatus of three years--until mid-1976--before a any significant agricultural trade reforms that might be negotiated could begin to be put into effect.

For another, the present International Wheat Convention is due to expire on June 30, 1974.

Although this truncated "agreement"-- which has no pricing provisions--is not competent to meet the main pressing problems of world trade in grains, the International Wheat Council and its staff and facilities should not be allowed to lapse and become dispersed. A new and effective International Grains Agreement should be ready to take effect on July 1, 1974, and the experience of the IWC's trained staff will be indispensable in that service.

And for still another and major reason, the trade negotiations, which are to be conducted under the auspices of the General Agreement on Tariffs and Trade (GATT) will exclude two of the world's four largest grain producers and consumers--the USSR and China.

Those countries will refuse, as a matter of strict principle, to participate in GATT negotiations. Nor will they participate after-the-fact in an international agreement that has been negotiated under GATT auspices. The potentials of each of these great countries as importers of grain, and especially the USSR also as a potential exporter, make it unrealistic to exclude them from participation in negotiations and operations of any arrangement concerning international trade in cereals.

And finally, as I detailed earlier in my statement, we believe the Administration's approach to trade in agricultural commodities simply will not work to expand our exports sufficiently to satisfy either the income requirements of American farmers or the balance of payments goals of the United States.

It would be a far better and more realistic course to revive the spirit and the precedents of a generation-long experience in international economic cooperation in agricultural trade, and to construct a new, modernized international grains agreement that provides solutions for the important but by no means insurmountable problems posed by today's conditions. A huge and growing volume of agricultural trade is already in being. Our major export customers are evidently willing to agree to higher levels of grain prices, which would yield to us moderately higher per unit returns from our exports. Exporting countries are capable and ready to cooperate in managing world export supplies. An expeditious gain both in farm income and in our trade balance can be realized in this way, without compromising our prospects for achieving the reforms of trade rules and non-tariff barriers which are the proper objects of the general trade negotiations.

International trade in two major groups of commodities -- grains and dairy products--is most immediately in need of attention from governments, with the view of achieving effective international cooperation.

Therefore, we recommend that your Committee, and the Congress, take whatever steps it can to urge the Executive Branch to act immediately to join with other nations in convening a negotiating conference to prepare an international agreement on grains conforming to the proposals set forth above, to take effect on July 1, 1974.

We urge further that the Executive Branch join with other nations in negotiating an international agreement on dairy products. Because the nature of the trade in dairy products is different from grains, provisions of an international dairy agreement would need to differ accordingly. The main goals in a dairy agreement should be to stabilize prices in international trade at fair levels, to avoid the misuse of export subsidies which disrupt domestic markets of other countries, and to promote the use of surplus dairy products for market development and food aid outside of commercial trade channels.

We have done a good deal of study and development of this approach during the past year. This has included extensive and close discussions and consultations with other major farm organizations of the United States, and also of other countries, particularly of Canada. A copy of the press announcement issued by eleven organizations of the U.S. and Canada which took part in these discussions and concluded, as do we, that a new international agreement with effective price provisions should be negotiated, is attached. (See Appendix A.)

Our organization took a leading part also in the work of the International Federation of Agricultural Producers in developing a specific proposal of a new international grains agreement. The IFAP includes most of the important farm organizations of all the developed countries and several of the less-developed countries. A copy of the proposal developed by the IFAP is also submitted herewith for the record.

APPENDIX A

FOR IMMEDIATE RELEASE

ST. PAUL, MINNESOTA, Sept. 7, 1972--Eleven major U.S. and Canadian farm organizations charged today that their farmers are not benefitting fully and fairly from the present record world grain sales.

World wheat prices have been low since 1967 because of the lack of effective price provisions in the last two International Wheat Agreements. This lack of international cooperation is responsible for prices to farmers remaining at low levels despite the present high export demand, the farm groups declared.

The farm organizations called on their two governments to act immediately to get an agreement by importing and exporting countries on wheat prices that would assure adequate returns to producers. Such price provisions should be added to the present International Wheat Agreement which ends in mid-1974.

The farm leaders said that farmers must have a major voice in the negotiation of the next Agreement and in the general negotiations for freer world trade scheduled to begin in 1973.

They recommended inclusion in a new agreement of the following provisions:

1. Coverage of both wheat and feed grains;
2. Minimum and maximum prices at levels fair to farmers;
3. Maintenance of grain reserves to meet emergency needs;
4. Measures to expand purchasing power for food in the developing world;
5. Coordination of domestic farm programs to improve management of world grain supplies;
6. Reduction of barriers against international grain trade;
7. Food aid.

Co-chairmen of the meeting were E.K. Turner, president of the Saskatchewan Wheat Pool, and Tony Dechant, president of the National Farmers Union of the U.S.

Other organizations represented were the Canadian Federation of Agriculture, National Farmers Union of Canada, United Grain Growers, Manitoba Pool Elevators, and the Alberta Wheat Pool, from Canada; and from the U.S., the National Grange, National Farmers Organization, National Association of Wheat Growers, and the Farmers Union Grain Terminal Association.

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REPORT OF THE WORKING PARTY ON THE INTERNATIONAL GRAINS ARRANGEMENT 1974

(Note: the following report is presented by the Working Party as a whole. However, it does not necessarily reflect the opinions of any particular member of the Working Party, nor are the organizations represented committed by the whole or any particular part of the proposals or remarks set out below.

The Working Party had before it three proposals as working documents submitted as personal contributions respectively by R.G. Lewis (NFU-U.S.), by G.H. Morsink (Netherlands - CEBECO), and by A. Winegarten (NFU-U.K.), A. Herlitzka (COPA), and P. Malvé (France). It wishes to express its gratitude for those three contributions which basically all propose agreement on feedgrains as well as wheat, that prices be maintained within a stipulated price range, and that agreement on reserve stocks would need to play a rôle in maintaining prices within the range.)

INTRODUCTION

Terms of Reference

1. At the 18th General Conference in May 1971 in Paris the following decision was taken:

"IFAP should establish its own expert group to analyze thoroughly the problems and explore the policy and methods necessary to make the /International Grains/ Agreement an uninterrupted success.

"IFAP should maintain its view on the desirability of seeking to bring coarse grains within the International Grains Agreement and the technical problems associated with this should come within the remit of the expert group referred to above."

2. Various problems arose which led to the postponement of such a meeting so that the first opportunity for reviewing the situation was offered when the Group on Grains met before the Nineteenth General Conference in Ottawa in October 1972. The Group felt that, while pursuing the objective of reinforcing the 1971 Wheat Agreement with price provisions, producers should already begin examining the requirements for an agreement in 1974, and the Conference therefore recommended that

"An IFAP working party should be convened shortly to expand and formulate precisely the Group's recommendations and present a report to the Spring 1973 session of the Executive Committee."

3. The recommendations of the Group on Grains, which therefore constitute the terms of reference of the Working Party, are essentially as follows:

"- Coverage of both wheat and feedgrains
- Minimum and maximum prices at levels fair to grains producers relying largely on exports for their returns and to consumers.
- Co-ordination of domestic farm programs to improve management of world grain supplies.
- Maintenance of adequate grain reserves.
- Reduction of barriers against international trade in grains while respecting the right of farmers in all countries to an adequate income.
- Food aid.

"A future Agreement on grains must include provision for rational and fair stock-holding policies shared amongst the chief exporting countries, but also to some extent amongst importing countries. Each country would be held responsible for maintaining stocks within agreed limits. As a corollary to this, the onus of adjusting national production to keep within the agreed stock limits would rest with individual countries as a commitment under the Agreement. Stocks would include feedgrains and be proportional to each country's share of world exports; the cost of stock-holding would be borne by the country concerned. The supply management effects of such a stock-holding agreement should ensure regular supplies of grains to importers at reasonable prices and avoid the building up of unwieldy surpluses."

4. It was also the opinion of the Conference that in negotiating an International Grains Arrangement, account should be taken not only of the current market situation at the time of negotiations but of a longer term view of the need to ensure adequate supplies at stable and remunerative prices.

General Comments

5. The non-adherence to the price provisions of the 1967 International Grains Arrangement and the failure to negotiate meaningful price provisions in the present International Wheat Agreement reflect fundamentally an end to the willingness and ability of Canada and the United States separately or jointly to withhold supplies from the market and to modify the competitive aggressiveness of their marketing policies sufficiently to ensure compliance with (or in the case of the present Agreement to undertake compliance with) minimum price provisions. The relative stability of prices and on the whole successful compliance with the price provisions of previous International Wheat Agreements in times of abundant supplies resulted from the North American exporters being able and considering it to their advantage, to act as residual suppliers to world markets. In the process they built up formidable carry-over stocks which only massive aid programs, substantial restraints on production, and the eventual emergence of exceptional demand conditions corrected. It is the conclusion of the Working Party that the conditions are past under which minimum-maximum price provisions - unsupported by corollary undertakings within the agreement which could affect underlying production, marketing and reserve policies - are likely to be successful, and that, moreover, the framework of agreement must be broadened to embrace feedgrains as well as wheat.

6. Producers are profoundly convinced, as evidenced by the findings of successive IFAP Conferences and most recently in October 1972, that the interests of producers of both exporting and importing countries lies in achieving stable and orderly conditions of pricing and marketing of grains in international trade. Since the interests of all of them are so directly affected, it is of utmost importance that both a grains agreement be negotiated and that producers themselves play a major rôle in that negotiation. To ensure that they assume this rôle, and that moreover they demonstrate to governments the seriousness of their intentions, it is desirable that producers provide leadership in bringing forward concrete and detailed recommendations to governments in time to serve as a basis for negotiation of a 1974 arrangement.

7. The Working Party recognizes that the proposals in this report fall short of achieving a detailed elaboration of the terms of a proposed agreement. Such an undertaking has been beyond the possibilities of the time and resources available to it. It suggests that consideration be given to whether it might be worth the effort for IFAP and its interested member organizations to commit the admittedly considerable time and expense that would be required to further elaborate these proposals following comment by member organizations and consideration by the Executive Committee.

8. Any international commodity arrangement should incorporate benefits and obligations on importers and exporters of the commodity or commodities concerned in, as near as possible, a balanced package. One of the essential guarantees of success

is that the benefits derived from the arrangement by member countries are such that under no foreseeable circumstance can it be worth their while withdrawing from the arrangement or in any other manner sacrificing those benefits. Any proposals put forward by grains producers should take these elements fully into account.

Proposed Guidelines for an International Grains Arrangement 1974

Term of the Arrangement

9. The Arrangement itself should not be for a fixed term of years but instead should constitute a framework of continuous policy which firmly and unequivocally establishes the intent of Governments to pursue a commitment to orderly marketing of grains by international agreement. The nature and direction of the undertakings arrived at under such an arrangement are of sufficiently basic and long-run significance that the arrangement as such should not face countries with the prospect of its termination after only a short period of years. At the same time, it is very clear that within the terms of the arrangement itself, detailed provisions must be periodically reviewed and renegotiated in the light of experience and changing conditions. Provision for this should be contained in the arrangement, as well as provision for notice of withdrawal and for accession.

International Grains Council

10. All countries(1) participating in the arrangement would be represented in the Council. Exporting member countries and importing member countries would comprise co-equal groups within the Council, recognizing that in the context, especially, of an overall grains arrangement, some countries would have representation in both groups. Each group would have equal voting power. The votes of each group would be divided as agreed among the countries associating with each of the respective groups. Decisions by vote would be decided by majorities of both the importing and exporting groups, although clearly a largely consentiant basis of operation and negotiation is desirable and indeed necessary.

Coverage

11a). The proposed arrangement would embrace wheat and the principal cereal grains used for feed.

11b). It must be recognized that protein-rich and especially starch-rich sources represent an alternative to grains as feedstuffs. The best course of action would therefore be to include such products within the terms of the arrangement, incorporating them into its system of price stabilization, export and import

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(1) For the purposes of the arrangement the European Economic Community would be considered as a single entity, member of the arrangement.

obligations and reserve requirements. The considerable difficulty of implementing such a decision must be recognized, and since strict application of the provisions would probably be impossible it is not proposed that this be attempted at this time. It is, however, proposed that a review committee would keep under review the development of prices and trade flows of such non-grain feeds. Should disruption of the grains market be feared, consultations would be held to decide whether corrective measures are necessary. The Working Party noted that consideration should be given to the special position of such feeds as export commodities of developing countries.

Pricing and Price Review

12. The following proposals for pricing provisions, price ranges, and reference grains must be assessed in relation to a clear understanding of the fundamental nature and assumptions of the whole proposal. A key assumption is that if member countries to an agreement attempt to sell more grain into the market than can be absorbed, then agreement to adhere to minimum pricing requirements is unworkable. This is the lesson experience has taught. The arrangement is therefore designed to provide a mechanism for preventing this situation occuring, by agreement to withhold grain from the market or add to supplies from reserves on an orderly basis, if need be, sufficiently for the demand/supply balance to permit maintenance of prices within the range.

13. To administer such a plan reference price guidelines are needed for both wheat and feedgrains. At the maximum this would put definite ceilings on wheat for food use and grains for feed, around which other grains than the reference grains would be priced at differentials on which agreement should be reached in the Council; such differentials would, under those conditions, likely be narrow.

14. With respect to the minimum, it would be the object to so manage supply that competitive forces rather than explicit definitions in the arrangement would determine the precise differentials in the market without undue price-depressing effects on any grain. The minimum price for the reference grains would serve as a guideline for action on the supply management side.

15. The operation of the arrangement therefore involves careful and continuing management by the Council and its committees and expert groups, both as the prices approach the maximum (since an increase in export quotas or the utilization of the world reserve would be brought into the picture), and as they approach the minimum (since assessment of the need for action on the side of reducing market allocations to exporters would be urgently signalled).

16. There would therefore need to be a co-ordinated functioning of review committees and technical groups that would maintain a

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continuing review of trading prices of grains, and emerging demand and supply and requirements conditions. It would signal the danger or existence of the conditions of the arrangement being breached and provide effective mechanisms for decision-making on the committees' own authority, or for efficient reference to the Council on matters such as decisions on adjustment of quota allocations.

17. With regard to reference wheats it is proposed that there be a tri-wheat system for basing price references in the arrangement. A high protein-type and grade of Canadian Wheat and a closely competitive type, grade, and quality of wheat from each of the United States and Australia would be chosen, each of which is regularly traded in world markets. The maximum and minimum wheat prices in the arrangement would refer to these wheats. The three wheats should have as close as possible to identical values in the world market.

18. With respect to a reference feedgrain - which will be needed both at the minimum and maximum - it is proposed that a single reference grain, namely maize, should be utilized.

19. The level and range of prices which would be desirable in the arrangement is a matter that can only be determined by negotiation, since the producer and the consumer interests are involved and consequently this would be an important factor in the balancing of benefits and obligations. It needs only be reaffirmed that it is a primary object of the arrangement to provide stable prices at levels that will give fair returns to producers who rely largely on exports for their returns. The price level to be aimed at should be higher than that established in the 1967 International Grains Arrangement in order to take account of the increases in production costs and to compensate exporters for the cost of maintaining World Grain Reserves.

World Grain Reserves

20. A World Grain Reserve would be established. It would be composed of wheat and other grains in a proportion to be agreed upon. The World Grain Reserve would be held as an obligation by exporters in approximate proportion to their agreed export quota, adjusted by agreement as necessary. Exporters would bear the full cost of maintaining such a reserve. It would be managed by the Council and decisions with respect to it would therefore be taken on a majority basis between exporters and importers. Such a reserve would constitute an individual and collective undertaking by exporters to their clients that all their entitlements would be able to be met, in particular in times of heavily increased import requirements. When the share of the Reserve held by any exporting country were drawn down below its allocated level, that country would have the obligation to replenish its share, by adjusting its production in the following season, or by transferring grain from its national stock. Replenishment of the Reserve would be a binding priority commitment on exporting

member countries. World Grain Reserves could be held at the discretion of the exporting country in a manner and place which would ensure that the grain would be reasonably available for delivery when and where required.

21. Note should be taken of policy on withdrawals from the Reserve. In a general way, reserve requirements would be basically, with necessary adjustments, related to exporter shares of trade. By the same token withdrawals from the Reserve would in principle be related to reserve requirements. However, it is clear that in practice there will be many considerations which the Council will need to take into account in administering reserve policy. Transitionally, there may well be a period when reserve stocks have not yet had an opportunity to build up to normal levels, and special rules would be required. Policy on these matters will have to be carefully thought out, and the kind of problems that may arise anticipated as far as possible.

22. As noted above, the fundamental purpose of the World Reserve in relations to the agreement would be to provide security to importers that they would receive their entitlements at not more than the maximum of the range. The amounts involved would be considerable but it would require careful study to define them with precision. It might well be considered desirable to develop a World Reserve with more substantial stocks than might be sufficient to ensure fulfillment of obligations to participating importers. Should plans thus be made to be ready for larger unforeseen needs wherever they might emerge, the question of the responsibility for financing the holding of such additional quantities would have to be carefully reviewed and negotiated; it could not necessarily be considered that World Reserves at such higher levels, though necessary in global terms, would remain the exclusive responsibility of exporting countries.

23. When the obligations to importers have been fully met the Council may, if it feels it prudent to do so, release further reserves for sale by members holding them to meet other needs. The maximum price restriction need not apply to such sales.

National Grain Stocks

24. Exporting and importing country members would normally hold national stocks of grains of some level. For exporting countries such stocks would include grain produced over and above the country's export quota, requirements for the replenishment of its reserve, and food aid donations. For importing countries, stocks would be constituted (or added to) whenever national production plus import obligations under the arrangement exceeded national consumption requirements. All countries could draw on such stocks to provide food aid. The time might come when, after a number of years of good crops, national stocks in importing and exporting countries would become a considerable burden to carry. Given the trading entitlements and obligations under the arrangement, and various other safeguards, countries carrying such

national stocks would have the choice of reducing national output or, stepping up their food aid shipments during the period covered by the arrangement. It is understood that at the end of the period quotas might be subject to negotiation. This system should allow a maximum of independence to each member country in managing its own stock and in operating its domestic farm policy, including the price support and supply management programs best adapted to national conditions. It should also avoid any risk of dumping burdensome stocks onto the world market.

Global Grain Sales

25. The estimated quantity of commercial grain exports to be made by exporter member countries to both member and non-member importers would be determined as the basis for the grain sales quotas of each member country, defined on an annual basis. This would be an all-grain quota, stated in tons rather than feed values, so that there would be no breakdown of country export quotas, or the global quota, by different types of grain. If non-grain starch-rich feedstuffs were to be included in the arrangement, feed-value equivalences would, however, have to be utilized.

26. The global quota would be subject to review and revision as necessary, at any time, and indeed the variations in time of harvest and patterns of marketing make a rigid "annual quota" basis of allocation impractical. This is an administrative problem that would have to be worked out.

Exporting Country Obligations and Entitlements

27. Each exporting country member would be assigned a grain sales quota defined as a percentage share of the global sales quota. These shares would be determined in the arrangement on the basis of criteria determined by negotiation. When the global sales quota was increased or reduced, the percentage shares would normally apply so that the increase or decrease would be on a pro rata basis.

28. Each exporting country member would be obligated to supply grain at not more than the maximum price to the extent of import entitlements of importers from that country, and in the form of wheat to the extent claimed by the importers up to the proportion of wheat in each importing country's entitlement. Each exporting country would be obliged to maintain its prescribed share of the World Grain Reserve, subject to disposition by the Council. All exporting countries in concert would be obligated to satisfy the import entitlements of all importing countries to whatever extent their entitlements could not be satisfied by the exporting countries from which the entitlements were due. All exporting countries would be obligated to sell no grain at below the minimum price.

29. If any member exporting country should suffer a shortfall in domestic production it could meet its export obligations and its

share of the market by utilizing national stocks or, failing that, request permission to meet its obligations or meet its market share out of the World Reserve. The Council could authorize such a withdrawal from the World Reserve, or assign to other member exporters additional quotas to make up any shortfall on a pro rata or other agreed basis.

30. By refusal to release World Reserves to an exporter the Council could make clear its view that the exporter was able to meet its obligations from its national stocks.

31. There would also need to be a mechanism for quota adjustment from year to year or periodically as required, the major criterion being a shortfall in the record of performance of member countries in meeting their quota allocation and reserve obligations. However, provisions regarding allowance for exceptional crop failure, for example, would have to be developed.

Importing Country Obligations and Entitlements

32. Each importing country would agree to purchase from exporting member countries not less than a percentage of its total requirements for arrangement grains. This percentage would be a negotiated amount related to a range of relevant criteria of which the historical record would be one. Based on the percentage so determined each importer's import obligation would be determined each year, and like the global sales quota would be subject to adjustment as necessary at any time. This amount would constitute the obligation of the importer to purchase grain from exporting member countries, for which the importing country would be obligated to pay not less than minimum prices. The import obligation would be defined in terms of tons of any grain.

33. Each importing member country would be entitled to supplies at no more than the maximum price, from each exporter, based on the importing country's purchases during a preceding base period from that exporting country. The importer would be entitled to demand his entitlement in the form of wheat up to the quantity of wheat in the importer's actual purchases which form the basis of its import entitlement. All importing countries would be entitled to purchase grain from the other exporting member countries acting in concert, at no more than the maximum price, to the extent that the exporting countries from which its import entitlements were due were unable to meet their commitments.

Exports by Importing Country Members

34. As already noted some countries may be both importing and exporting members of the Council. There will be a number of countries which customarily import some kinds of grain and export others. Such countries would assume both export and reserve obligations as regards their exports, and import obligations and entitlements as reagrds their imports.

Commercial Sales of Grain

35. Exporting country members would compete for sales to fulfill the import obligations of importing country members, and would compete likewise for sales of grain to non-member countries. Exporting countries would be obligated to comply with the maximum price guarantee in sales to importing country members up to the amount of each importing country's import entitlement from that exporter, and to offer no grain for sales at less than the minimum price to any country.

Food Aid

36. Exporting and importing country members would agree in concert to supply up to an agreed global amount of grains as food aid, as a commitment to eligible importing country members. The obligation toward fulfilling this entitlement would be allocated among the developed country members by agreement. Food aid commitments would be fulfilled irrespective of market conditions. As frequently reaffirmed by IFAP, food aid is a constructive form of aid which deserves to be pursued for its own sake and not essentially as a means of disposing of accumulated surpluses as and when they happen to be available.

Less Developed Country Members

37. Each less developed country acceding to the arrangement as an importing country member would be assigned a commercial import quota, together with a food aid import entitlement. The ratio of the commercial import quota to the food aid import entitlement would be established for each less developed importing country member in accordance with its relative ability to pay, somewhat as "usual marketing requirements" are defined and monitored by FAO's Consultative Sub-Committee on Surplus Disposal. These countries would purchase grain to fulfill their commercial import quota and food aid import entitlement from member countries on a competitive basis. These transactions would be subject to review by the Council and subject to terms conforming to guidelines established in the arrangement(2). Under this procedure, each less developed importing country member could receive its total grain supply purchased under terms of the arrangement at a "blended cost" commensurate with its relative ability to pay.

38. Additional food aid from member countries would be encouraged on both bilateral and multilateral terms, all such transactions would be reported regularly to and reviewed by the Council. The preceding proposals are not intended to cover exhaustively either the need or the possibility of food aid and food aid programs in grains, either within or outside the arrangement.

39. The import obligations and export sales quotas of less developed member countries would be made subject to special consideration by the Council of the needs of these countries to develop their resources efficiently in order to satisfy their requirements for adequate nutrition of their population and general economic development.

(2) FAO's Principles of Surplus Disposal should be a basic reference for such purposes.

Mr. GIBBONS. Mr. Duncan.

Mr. DUNCAN. At the beginning of your statement you say that you do support the bill but I can't find anything in your statement where you do support any part of this bill. What part do you support?

Mr. LEWIS. I am sorry.

Mr. DUNCAN. In your statement, Mr. Lewis, you indicate that you do support portions of this proposed bill but I can't find anything that you have supported or said here today that would indicate your support.

Mr. LEWIS. Well, we do favor those provisions which would liberalize trade.

We favor the proposed authority for the President to decrease tariffs without limit, including—and this of course is very sensitive in the agricultural field—the new procedure proposed by the President to have agreements on nontariff trade barriers to be implemented subject to the right of Congress to veto within 90 days, and we generally favor the changes proposed in title II.

These are the changes that would apply to relief from disruption caused by "fair competition," but we urge that more stress be placed on worker retraining allowances and reemployment allowances and things of this kind, rather than on import quotas as a way of relieving the workers and businessmen who suffer the disadvantage of increased imports, and distributing the burden fairly over the whole population.

We approve without any specific reservation the provisions of title III.

Mr. DUNCAN. You said in your statement, "We support and urge enactment of most of the provisions proposed by the President in the Trade Reform Act of 1971."

Mr. LEWIS. Yes.

Mr. DUNCAN. But apparently you do not. You say, "with reservations."

Mr. LEWIS. The only provision of the Trade Act to which we object is the provision that would give the President unlimited authority to increase tariffs. My statement relating to the international commodity agreements is not directly affected by this legislation, but this legislation is being discussed and promoted as a way to get substantial benefits, balance-of-payments benefits in agricultural trade, which I think are overdrawn and I wanted to call the committee's attention to the necessity to proceed by other means to try to improve the conduct of agricultural trade which would be above and beyond the trade liberalization features of this legislation.

Mr. DUNCAN. How many farmers do you have in the Farmers Union?

Mr. LEWIS. Our membership is about 300,000.

Mr. DUNCAN. Most of the farmers I have talked to were rather happy when we could sell wheat to Russia.

Mr. LEWIS. Our farmers are happy to have wheat sold to the Russians and as much wheat sold as possible. Some of our farmers regretted that the sale was consummated before they knew about it and they felt that the sale could have been managed in such a way that the benefits would have been handled more equitably.

Mr. DUNCAN. Why were you opposed to the sale of wheat, then, if your farmers were for it?

Mr. Lewis. We are not opposed to the sale of the wheat. I said in my statement that the sale of wheat to the Russians illustrates weaknesses in the Administration's policies.

It could have been done better. We feel that the weaknesses in the grain policy that were demonstrated by that experience are very serious to farmers and to the whole national economy, and they have let America down.

Mr. Duncan. On pages 3 and 4 you express the National Farmers Union's disappointment with the generalized tariff preference for less developed nations and then you go on to suggest that the bill could do more to expand the opportunity of the poor and the hungry of the world to sell their goods to earn more for buying more of the food they want and need.

I wonder what you specifically had in mind in doing more.

Mr. Lewis. Well, I think that we need to carefully negotiate and carefully plan for major expansion of our trade with the developing countries because we have a comparative advantage in many of the kinds of things they need to import from us. One of them of course is food. That is their first and primary need but those countries all need many other things that can be made in America, machinery and capital equipment for developing industries, and so on.

I don't think that the American industries, including the farming industry that get caught at a disadvantage when agreements are made to increase imports should be made to bear the costs of those adjustments on their own. I do not believe in a "free market" in that sense. I think we need adjustment assistance programs that are carefully designed to protect the workers and businessmen who get caught in a bind when these trade adjustments are made.

Mr. Duncan. You indicate that we should buy more labor-intensive merchandise or products. Don't we advocate or really encourage cheap, almost slave labor, when we buy merchandise or textiles in this way?

Mr. Lewis. I think, on the contrary, that the more employment opportunities can be increased for poor people the better their wage scales are likely to be, and the faster their process of organizing and collective bargaining and improving their standards of living is likely to be.

Mr. Duncan. But at the present time don't you think we encourage the cheap labor when we buy their products that have been produced at $20 to $30 a month labor?

Mr. Lewis. I think the choice is whether we buy their products or whether we leave them unemployed, and I think they are better off having jobs than being unemployed. Their wage rates are much more likely to be improved and they will have a better chance to advance their wage rates and so forth if there is relatively full employment.

Mr. Duncan. Thank you very much.

Thank you, Mr. Chairman.

Mr. Gibbons. Mr. Vanik.

Mr. Vanik. I would like to ask, Mr. Lewis, do you believe that we should permit an export of American agricultural product to a point where we diminish our own supplies below domestic needs?

Mr. Lewis. No, sir, I do not believe we should.

Mr. Vanik. Shouldn't there be some provisions in this bill that would provide protections for the American consumer to insure that we don't export ourselves out of adequacy?

Mr. LEWIS. Yes, I think that we need to have protections of that kind. An international commodity agreement such as we propose would provide what I think is the most systematic kind of protection.

Mr. VANIK. The only thing that is going to be protective to the American people is American law and it would seem to me that that kind of language ought to be in this bill. I think one of the things we ought to insure in this bill is that we aren't trading ourselves out of adequate food supplies at decent prices. That has been my concern. Your best market is the American market.

Mr. LEWIS. We appreciate that.

Mr. VANIK. This European or Japanese foreign market is a bonanza today but as soon as they receive their potential, and they might do it dynamically and rather quickly, particularly if we export a lot of technology to them, your bonanza in exports might disappear. It would seem to me that the real strength of American agriculture ought to be its respect and regard for the domestic market.

Mr. LEWIS. Mr. Congressman, I don't think there is any need for us to get into the kind of—

Mr. VANIK. Let's talk about the wheat deal. That cost us one point one billion dollars in subsidy to grow the wheat, $300 million in export subsidies to sell it, ten dollars a ton as an export subsidy to ship it, and on top of that the escalation that resulted in food prices after the wheat deal cost, by my estimate, the American consumer about $6 million. That was a pretty expensive deal for this country.

Mr. LEWIS. I am not going to attempt to audit your figures. I don't doubt them but I just can't pass judgment on them right now.

Mr. VANIK. All you have to do is multiply the increases by the number of people and you are there.

Mr. LEWIS. It seems to me that the lesson there is that we should have an adequate reserve program.

Mr. VANIK. I supported that reserve program over the years largely because your organization asked me to do it. City people asked me to do it. They said, Mr. City Congressman, you know we have to have a balance between the communities and the farmers and workers. Let's have adequate food supplies."

That was always the credo behind the subsidies that went into our agriculture. I voted billions of dollars in subsidies in my time, maybe 100 billion. I voted to provide money for agricultural research. I thought this was great. I wanted the insurance programs. I wanted you to have housing at lower subsidized interest rates. I wanted rural electricity everywhere. I wanted all of these things because I felt that it was a good investment for us. I thought the $5 billion or $10 billion that we put into agriculture gave us reasonably priced food.

They tell us that we don't pay as much for food as people do abroad, and this is true. But in Europe and Japan the taxpayers of those countries have never given agriculture the tremendous incentives over the years that we have with the contributions that we made through our taxes.

Mr. LEWIS. I recognize and acknowledge the very substantial public support that agriculture has had down through the years. However, the present programs have not been adequate to get the job done that needs to be done, and we went into the Russian wheat sale without adequate reserves. We don't have an adequate reserve system now.

Mr. VANIK. That is behind us. Were the Canadians as reckless in their deals? From your experience, was it as costly to their consumers and domestic economy as were the American sales?

Mr. LEWIS. Generally, the Canadians are very careful traders and they get as much out of the wheat they sell as they can for the interest of their farmers and their economy.

Mr. VANIK. One of the points that I have been trying to make is that they want us to give most-favored-nation treatment, but we have had two experiences with the Soviets: the wheat deal and the Pepsi-Cola deal, and neither one looks like very much for America. I want some examples of good trading deals before we move further. I want to ask you this:

Do you see any justification for the imposition of the bread processing tax? Why should the bakers have to pay $400 million in subsidies to agriculture for the processing tax?

It seems as though they are at a disadvantage over foreign bakers. The Soviets don't have to pay this tax. They probably make better bread. They probably put the $400 million extra into the bread. Why should our bakers—and this is passed on to the consumers—pay a $400 million subsidy for the processed wheat?

Mr. LEWIS. I don't defend the wheat certificate program specifically, but I would point out that it is in the interests not only of farmers but of consumers, as well, to insure that farmers receive a price that is adequate year after year.

Mr. VANIK. Right. You want a guaranteed price and we want to give you a guaranteed price, but that price has just doubled in the past year. You have gone beyond the limits of guarantee. Look where the price of soybeans are moving now. How can you defend this?

Mr. LEWIS. There are very few farmers who are selling soybeans at those prices that you see quoted in the commodity markets today.

Mr. VANIK. I don't know.

Mr. LEWIS. Their soybeans were sold before.

Mr. VANIK. That was their mistakes in letting it get away but I don't know how that happens. I am perfectly willing to help you correct that kind of problem. I would like to see the benefits of agriculture maximized to the farmer and anything that we can do in law to bring that about, I will be happy to support. I would like to prevent traders form reaping in the benefits of your labor. I think they belong justifiably to you. I have one other question. You talk about non-tariff barriers. How do you feel about the meat import quota? That is a non-tariff barrier. Do you think we should continue that?

I want to abolish it. Right now we need ten percent of our meat by import to take care of our diet. In my community meat is leaving the diet. It has priced itself out of the diet of the poor. Children are not getting enough meat today because of prices. In light of this situation, do you think it is defensible to have an import quota anywhere in the law? If it belongs on meat, don't you think we ought to extend it to automobiles or to things that are made by Americans all across the board? That is the Burke-Hartke bill. You want the Burke-Hartke bill for the farmer but you don't want it for the producer of mechanical goods or machine products.

Mr. LEWIS. I think that we need to know what we are doing when we negotiate trade agreements and deal with the probable results in a responsible and careful way that will fully protect the interests of our country.

Mr. VANIK. That is what Burke-Hartley says. You are quoting the language from the Burke-Hartke bill and that is not the proposal for which you are testifying today. That is exactly the language of that bill. You have got it. You want import quotas on meat. I suppose you want them on dairy products and later on when foreign markets might be coming in here with wheat, when the Soviets learn how to produce wheat and will probably come back and be ready to export to us, you will probably want to impose quotas on wheat and cotton. They are going to develop technology.

Don't underestimate the ability of other people in the world to develop the American technology in agriculture. There are farmers selling it to them right now. We spent billions of dollars to create it and they are going to distribute it through the world and before long the fruits of that technology are going to come back to take the markets in the country that you thought were yours and which you have lost.

Mr. LEWIS. I think we have to give a good deal of attention to maintaining our markets and we can't let down our regular customers for wheat and soybeans as we did this year by letting a one-time or sometime buyer who has an emergency come in and run up the price both for domestic consumers and our foreign customers without adequately and amply protecting their interests.

Mr. VANIK. I think you did a real service when you called our attention to that and that the fact that the money was bypassing the farmer and going in another direction.

If I have one more minute, Mr. Chairman.

Mr. GIBBONS. Surely.

Mr. VANIK. Specifically, how do you feel about the meat import quota section? Should it stay in the law or should we take it out?

Mr. LEWIS. I think that this needs to be considered in the context of an overall agricultural trade policy. As far as agriculture is concerned, I am convinced that the interests of American agriculture would be best served by free trade. I think our agriculture could compete in the world.

Mr. VANIK. Forever?

Mr. LEWIS. Forever or for the foreseeable future, particularly if restrictions against imports of our best potential customers were eased. I do not advocate completely free trade, blindly free trade. I think that the interests of the workers who face the loss of their jobs, of businessmen who face the loss of their investments, both need to be appraised and given the best possible protection.

Mr. VANIK. Let me ask you this next question: Do you think the American taxpayers ought to be compelled to assume the obligations of a subsidy that is used for the production of agricultural products for export?

Mr. LEWIS. That depends on whether it is in the national interest and I am convinced——

Mr. VANIK. Go ahead and answer. How could it not be in the national interest? You have to think about your own people first. I would like to limit the subsidy program to domestic production to be sure there is enough in the cupboard for Americans, and if there is any surplus, sell it. I am at about a point in time where I want to limit the subsidy program to precisely the domestic needs of America and to those who produce for America. If they want to use their other land and do anything they want with it and produce for export, fine. Let them go ahead and produce. But I don't think they ought to be using the consumers' dollar, the taxpayers' dollar to subsidize an export program.

Mr. LEWIS. The way I look at it, Mr. Congressman, we do need to buy some goods from overseas. We need petroleum, for example..

Mr. VANIK. Of course.

Mr. LEWIS. We are going to have to be able to sell something and it may be necessary for the country to put its back behind the export effort in order to generate the foreign exchange that we need.

Mr. VANIK. That is right. We ought to sell all the Cadillacs we can to Saudi Arabia. That is the only place in the world where they have gasoline enough to operate them. I think that is the sort of thing we ought to do. I think we should sell them a Cadillac or Continental. Why not send them these big giants, they are the only persons who have the fuel to operate them.

I think we ought to sell them those goods on which the man hours of labor are so much more than the man hours for production of 100 bushels of wheat. The sophisticated machinery, the sophisticated development can in a smaller package constitute a greater element with less shipping problems, can constitute a higher degree of effective trade. But what do you propose that we do about the EEC countries? You want us to expand trade there. What do you expect they are going to sell us for the other agricultural products? I don't mind what you do about the developing nations. They need it. They are starving people. But you tell me what you are going to do about the European Common Market countries. What are we going to buy from them in exchange for all the added agricultural products that you would like to pour into that market?

Mr. LEWIS. I am somewhat skeptical that we are going to be pouring so many more agricultural commodities into Europe.

Mr. VANIK. Isn't that what this bill is all about?

Mr. LEWIS. If that is what this bill is about, I think it is a mistake, because I don't think that the European countries are going to blow all their farm price support programs out of the water and turn their farmers over to a low price policy that drives them out of production. I think it is an illusion if that is what this bill proposes to do.

Mr. VANIK. So in your judgment it is illusory to assume that this legislation is going to precipitate that kind of trade?

Mr. LEWIS. I don't think this legislation will accomplish in the realm of agricultural trade anything like as much as has been claimed for it. Therefore, we propose that we ought to cooperate with the European countries and others around the world on negotiating the terms of trade in agricultural commodities that will give recognition to the measures taken in each country to protect the interests of its farmers, to protect their own domestic food supplies, and all the other concerns that all farm people and consumers around the world have, and then cooperate internationally in setting up a sensible, rational, and secure world food system.

Mr. VANIK. Well, I just want to tell you that I appreciate your testimony. I find from the testimony that you are one farm group that has some sense of morality and I appreciate that.

I would just like to ask one final question. Don't you think there ought to be a provision in this trade bill which would be a so-called consumer section which would provide that when exports or imports serve to be detrimental to the American consumer, serve to distort prices in America and set them up at abnormal levels, that it ought to trigger off either an increase in exports or imports.

Mr. LEWIS. I certainly do think that the entire bill should serve the interests of consumers.

Mr. VANIK. That should be the primary thing.

Mr. LEWIS. Yes.

Mr. VANIK. The secondary goal should be to develop a viable industry and agriculture today and develop incentives to world trade.

Mr. LEWIS. Yes, sir.

Mr. VANIK. Thank you, very much.

Mr. GIBBONS. Mr. Karth.

Mr. KARTH. Well, Mr. Chairman, I have just one question to make sure that the record is clear. I seem to understand your organization's position on the sale of wheat to Russia differently than one or two of my colleagues. I understood your position to be that you were not opposed to the sale of wheat to Russia, or anyone else, but what you were opposed to is the manner in which it was sold, that it was sold too quickly, too secretly, too cheaply; that it should have been sold so that the farmers of America could have at least gained additional minimum one-third billion dollars of income if they had been charged the proper price or the taxpayers of America, the Treasury of the United States would have benefited to the tune of at least a minimum of an additional third of a billion dollars of income.

That is the position I understand your organization to hold.

Mr. LEWIS. That is the position I have intended to describe.

Mr. KARTH. I am glad to make sure that the record at least is set straight on that point.

Mr. LEWIS. I very much appreciate that.

Mr. KARTH. I think I agree with you. One last point, Mr. Chairman. I am happy finally to find a witness who agrees with me that the exportation of agricultural products should not be held up as a panacea to solve our imbalance of trade and imbalance of payments problem.

I have said it over and over and over again without knowing what you were going to say or what was your organization's position but I see you use the same word. I am very happy that one of the great farm organizations is here to agree with me and attest to that.

Thank you very much, sir.

Mr. GIBBONS. Mr. Rostenkowski.

Mr. ROSTENKOWSKI. I have no questions, Mr. Chairman.

Mr. GIBBONS. Mr. Lewis, let me ask you a couple of questions about that chart following page 9, table II. It is entitled "Basic Support Prices for Wheat." How do these prices relate to the price actually paid for wheat? Are they about the same? Are they no longer than that except where you have farmers that don't participate, as in the United States?

Mr. LEWIS. Well, these figures are compiled by the International Wheat Council which is an international agency that administers the International Wheat Convention. Each country has different statistical systems and some of them aren't very good. So it is very difficult to get figures that are truly comparable from one country to another. Wheat figures are about the best we have. What they have attempted to do here is to describe the level of support that is provided as a result of Government policy. That might be a loan program for example, in our country which maintains the price at let's say $1.31 a bushel for the farmer who does not comply. In another situation it might involve an element of payment. These Government support elements are all added in there so that the delegates from the respective countries can have a fairly reasonable indication of what each country is doing.

Mr. GIBBONS. Well, how do these relate to the price actually paid?

Mr. LEWIS. These are approximately the prices that farmers are likely to get.

Mr. GIBBONS. These are the lower prices; the base prices the farmers get?

Mr. LEWIS. These are the prices including support benefits but instead of being figured on the basis of actual market prices they are constructed on the expectation of what prices would be if the prices relied strictly on the support. There may be some cases where the market prices go up above the support price but generally speaking that wouldn't be true.

Mr. GIBBONS. In the U.S. would it be true?

Mr. LEWIS. In 1971 these figures would be——

Mr. GIBBONS. The maximum prices.

Mr. LEWIS [continuing]. About the price, the amount of money and other income farmers get per bushel of wheat.

Mr. GIBBONS. Why do they vary so much?

Mr. LEWIS. Well, they vary because the price of wheat isn't made in heaven. It is made in Washington and London and Paris and Brussels and New Delhi, and places like that by governments, by public policy, and all countries intervene in their agriculture economies, I think necessarily so, and determine what price commodities should trade at; that is, the basic commodities for that country's farm economy.

Mr. GIBBONS. Why is the price in Argentina so cheap?

Mr. LEWIS. Argentina has a government without substantial financial resources. It is mainly an agricultural country. They don't have an urban industrial sector to help support their agriculture and Argentine agriculture has declined over the decades as a consequence of that. I think that what is happening in Argentina, and what happened in the 1940's when the Peron Government burdened agricultural exports to finance the military and political ambitions of the Peron regime, illustrates the danger of trying to bleed the agricultural goose that lays the golden egg.

Mr. KARTH. Excuse me. Will the Chairman yield?

Mr. GIBBONS. Certainly.

Mr. KARTH. You mean the value of agriculture in Argentina has depreciated but it hasn't declined, has it? The value of agriculture and its commodities have depreciated but it hasn't declined in Argentina.

Mr. LEWIS. Argentina's relative position in the world has declined since the 1940's and 1930's. Grain production is not standing up as well in comparison with other countries.

Mr. KARTH. That is another matter. I am talking about the depreciation of the value of the agricultural commodity. That, true, has depreciated in Argentina but I don't think it has declined. If you want to take it on a worldwide basis, that is true, but I don't think it has declined but has depreciated in Argentina because as you indicated the government hasn't supported it.

Mr. LEWIS. I think the figures will show that actual grain production in Argentina is running behind what it did before.

Mr. KARTH. Not all agricultural production including raising of cattle, and so on.

Mr. LEWIS. I don't know. My impression is that Argentina's agriculture has been in deep trouble. It has not expanded and prospered as it has in Canada and Australia, for example.

Mr. GIBBONS. I understand they are even rationing beef in Argentina.

Mr. LEWIS. I understand they are putting restrictions on consumption of meat. I think so.

Mr. GIBBONS. That is amazing with all the grassland and all the great beef-producing potential that Argentina has.

Mr. LEWIS. I think this illustrates this point—I have not studied Argentine agriculture—but Argentina has not had the public resources to put into its research and disease prevention and extension programs to teach good methods to the farmers, plus credit on favorable terms, and ever making credit available on whatever terms, and a lot of other institutional supports that our agriculture has had here and as agriculture has had in most developed countries.

Mr. KARTH. Would the Chairman yield one more time, and I promise not to ask you again.

Mr. GIBBONS. That's all right.

Mr. KARTH. As I understand the situation in Argentina, the reason that beef has been rationed is not because it is in shorter supply but because they want to cut down on domestic consumption so that they can export larger amounts of their beef to give them a better balance of payments and a better balance of trade position. The people of Argentina don't want to be rationed for that reason. They don't want to reduce their own domestic consumption so that the Government can export more. They want to consume their own beef. Isn't that the situation, really?

Mr. LEWIS. I think that you are right, as far as the immediate situation is concerned, and perhaps the misunderstanding is that I am talking about the longer pull, taking a longer range look at Argentine agriculture. Argentina has hoof and mouth disease, which I have been told reduces the productivity of the livestock economy by about 25 percent. As an illustration, we do not have hoof and mouth disease in this country because we have a strong Government that has protected our agriculture from it.

Mr. KARTH. We ought to help them eradicate that disease and then import some of their beef.

Excuse me, Mr. Chairman.

Mr. GIBBONS. That's all right.

Looking over this list, then, would you say that the places where we could probably sell additional wheat are the ones with prices above the U.S. support price, or substantially above the U.S. support price?

Mr. LEWIS. Yes. The only countries that have prices lower than ours for wheat have plenty of wheat, Canada, Argentina, Australia.

Mr. GIBBONS. I was interested in the EEC prices. We have Belgium at $2.70 and France at $2.54. I was under the impression that they all had approximately the same support price in those areas.

Mr. LEWIS. These are 1971 figures and they are just as reported by the International Wheat Council. It may be that the geographic relationship to the ports accounts for these differences of prices. The French wheat producing area is farther from the port and milling cities than, say, Belgium's. Just as wheat in Kansas has a lower price in this country than wheat in Texas, which is closer to the port and the mills.

Mr. GIBBONS. Thank you, Mr. Lewis, for your helpful suggestions. We appreciate your coming to be with us today.

Mr. LEWIS. Thank you.

[The following was received for the record:]

NATIONAL FARMERS UNION,
Washington, D.C., June 6, 1973.

Mr. JOHN W. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. MARTIN: Enclosed is a copy of my letter to Mr. Karth, with accompanying tables and other data, which sheds additional light on matters discussed in my testimony before the Committee on May 23. I would appreciate your inserting this material in the record, if you think it would be useful.

Truly yours,

ROBERT G. LEWIS,
National Secretary.

Hon. JOSEPH E. KARTH,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. KARTH: Following our discussion of agricultural producation trends in Argentina during the hearings of the Ways and Means Committee on May 23, I have looked up some of the official data on the subject which might be of interest to you. You may recall that I remarked that "Argentine agriculture has declined over the decades," and that "I think that what is happening in Argentina, and what happened in the 1940's when the Peron government burdened agricultural exports to finance the military and political ambitions of the Peron regime, illustrates the danger of trying to bleed the agricultural goose that lays the golden egg." I am enclosing herewith some data which I think tends to substantiate the view I expressed to the Committee.

Please note the graph entitled *Trends in Argentine and World Grain Exports.* This graph indicates that Argentine grain exports declined sharply from the mid-1930's to the mid-1940's, and remained at a level apparently half or less that of the 1930's until about 1960, when a slow recovery was underway, which is continuing to the present.

The U.S. Dept. of Agriculture publication enclosed notes that during this period "The Argentine position in world grain trade declined."

Table 9, also enclosed, shows the production, by commodity, of Argentine agriculture during the most recent 10-year period. These data show that total crops production increased 9% in 1972 over the 1961–65 average, and all agriculture in Argentina increased 5%. But the per capita production of Argentine agriculture was down 8% from the 1961–65 average, and per capita food production was down 5%.

An additional table enclosed shows per capita consumption of all meat in specified countries during the 10-year period ending with 1971. The Committee expressed considerable interest in this data during the hearing. It is interesting to note that whereas consumption per capita of all meat increased above the 1961–65 average by 22 lbs. per capita in Canada and 25 lbs. per capita in the United States, there was a decline in Argentina of approximately the same magnitude.

I am sending a copy of this letter and enclosures to the Chief Counsel of the Committee for insertion in the record of the hearing in conjunction with my remarks if he considers that it will be of value in the record.

Truly yours,

ROBERT G. LEWIS,
National Secretary.

[Excerpt from "Grain Production and Marketing in Argentina," FAS–M–222, U.S. Department of Agriculture, Foreign Agricultural Service, December 1970]

GRAIN PRODUCTION AND MARKETING IN ARGENTINA

(By James P Rudbeck, Grain and Feed Division)

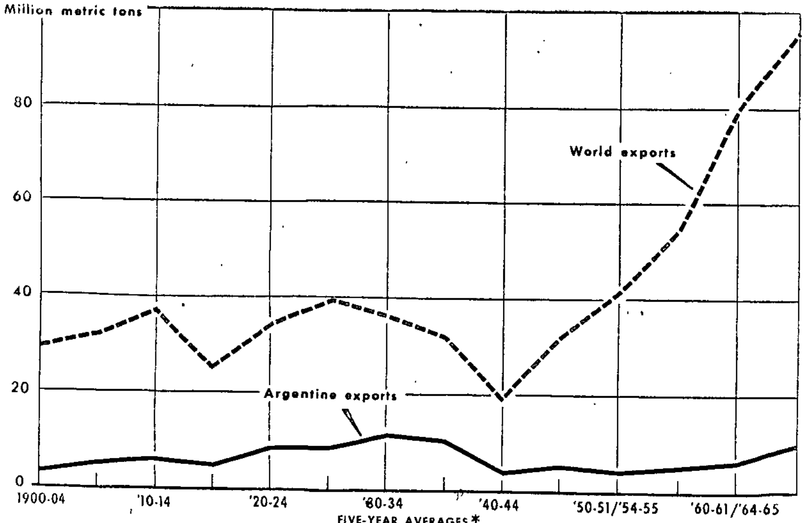
ARGENTINA'S POSITION IN WORLD GRAIN TRADE

Background

Ever since shortly after the opening of the Pampa to grain production in the closing years of the last century. Argentina has been one of the world's leading grain exporters.

Shipments of Argentine grain fluctuated, of course, from year to year as grain crops were affected by weather conditions both in Argentina and overseas. Just prior to World War II, however, Argentina's relative position in world grain trade was at a high point where Argentina made over one-third of international grain shipments. During the war, Argentine production and exports declined, as did world grain trade in general. Following the war, world trade volume in grains began a sharp rise while for Argentine production and exports recovery was slow. As a consequence, through the 1950's and the early 1960's, the Argentine position in world grain trade declined.

TRENDS IN ARGENTINE AND WORLD GRAIN EXPORTS



* BASED ON CALENDAR YEAR TRADE FOR 1900-1948 AND FISCAL YEAR TRADE FOR 1949-50 / 1969-70.

By the mid-1960's, grain exports began to pick up, and the Argentine share of world trade again started to increase. In years of bumper harvests since the mid-1960's, Argentina has accounted for as much as 20 percent of world corn trade, 13 percent of wheat and flour trade, and 30 percent of sorghum trade.

Clearly, in recent years Argentine exports have been a major factor in both increases and declines occurring in U.S. grain export volume—particularly in the volume of U.S. feedgrain exports to Western Europe and of wheat exports to Latin America.

Present status

Approximately 50 percent of Argentine grain production is exported in normal years, and grain exports supply 30 to 40 percent of total export earnings for the country. Over the past 10 years, wheat exports have provided about 15 percent of total Argentine export earnings, corn around 10 percent, and other grains approximately 5 percent.

Wheat has been the postwar export leader; however, unfavorable weather and a shift toward corn and sorghum held back production in the late 1960's, and the export volume averaged only around 2.3 million metric tons per year from 1966–67 to 1968–69. The postwar high in wheat exports was 6.4 million metric tons during the 1964–65 marketing year.[1]

Around 30 to 40 percent of annual wheat production has been going into the export market. The most consistent markets for Argentine wheat exports have been in South America and in Western Europe, and the annual volume of exports to these two areas has generally been in the range of 2 million to 3 million metric tons. Coincidental with the extraordinarily large exportable supplies between 1963–64 and 1965–66 were large outlets in the USSR and Mainland China; neither has been a market for Argentine wheat since then. Generally, in the past, sales to the hard currency markets in West Europe had been given the greatest preference. More recently, increased emphasis has been placed on sales to the South American area, and in late 1969 when exportable wheat supplies appeared to be limited, sales to destinations other than South America were temporarily embargoed to ensure that ample supplies would be available to meet potential demands in South American markets.

Corn exports stepped into the forefront in the late 1960s with about half of the domestic harvest being exported. Exports have averaged around 3.9 million tons annually with a postwar high of 4.1 million tons during the 1967–68 marketing season. For corn, Italy and Spain are considered to be the primary markets; only when the exportable supply has exceeded what these two countries could absorb have large sales been made elsewhere, such as to the northern countries of Western Europe. The annual volume of exports to Italy and Spain has been in the range of 2.4 million to 3.0 million tons, and shipments to these two countries have accounted for between 70 and 80 percent of all Argentine corn shipments. With Italy and Spain absorbing an increasing portion of Argentine corn exports, Japan has not been a major outlet for Argentine corn exports since the early 1960s.

Grain sorghum exports, which only started in the late 1950s, have been growing ever since. Annual export volumes were between 420,000 tons and 1.4 million tons in the late 1960s and were about 40 percent of production. Initially, the West European markets took most of Argentinas grain sorghum exports, but by 1969 Japan was taking two-thirds.

Barley, oats, and rye have become increasingly less important in the mix of Argentine grain exports as well as in world grain trade. Exports averaged around 410,000 tons between 1966–67 and 1968–69 and were only slightly more than 25 percent of domestic production. Almost all of the exports of these three grains have been to Western Europe.

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[1] The official marketing year for wheat is December–November. Wheat is sown in June and July, harvested in December and January, and marketed from December through November. Thus, for wheat the designation 1969–70 for crop year and marketing year refers to the same harvest. Corn is sown between August and October, harvested largely in April and May; and the official marketing year is April–March. Thus, the crop year reference 1969–70 and the marketing year reference 1970–71 both apply to the same harvest. The patterns for sorghum are similar to corn. The patterns for barley, oats, and rye are similar to wheat.

[Excerpt from "Indices of Agricultural Production for the Western Hemisphere (Excluding U.S. and Cuba)" ERS Foreign 264, Economic Research Service, U.S. Department of Agriculture, April 1973]

TABLE 9.—ARGENTINA: PRODUCTION BY COMMODITY, VALUE AND INDICES OF TOTAL AGRICULTURAL AND FOOD PRODUCTION, AVERAGE 1961–65, ANNUAL 1963–72

Commodity	Price weight (dollars)	1,000 metric tons: Average 1961–65	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Wheat	40	7,541	8,940	11,260	6,079	6,247	7,320	5,740	7,020	4,920	5,680	8,100
Rye	35	422	538	652	245	270	352	360	377	181	256	600
Rice, paddy	80	193	178	190	268	165	217	283	345	407	288	294
Millet	25	186	154	189	113	186	224	229	196	125	183	105
Sorghum	28	1,144	952	1,267	857	2,130	1,380	1,897	2,484	3,820	4,660	2,360
Corn	43	4,984	4,360	5,350	5,140	7,040	8,510	6,560	6,860	9,360	9,930	5,860
Barley	32	679	1,020	826	404	438	588	556	570	367	553	820
Oats	28	676	906	805	480	540	690	490	425	360	475	540
Potatoes	28	1,738	1,453	1,492	2,489	1,484	1,797	1,967	2,340	2,336	1,958	1,340
Sweetpotatoes	43	360	366	342	341	362	444	379	480	438	454	328
Sugarcane	9	10,765	11,076	11,827	13,112	10,242	8,007	8,281	9,124	9,301	9,265	10,831
Tobacco	350	50	55	49	53	45	62	62	54	66	62	74
Cotton	480	120	133	99	138	116	87	72	112	145	84	90
Cottonseed	37	231	257	198	270	213	158	138	218	272	167	173
Flaxseed	78	763	771	815	570	577	385	510	640	680	316	345
Peanuts, in shell	115	357	312	333	439	411	354	283	217	234	388	252
Sunflower seed	81	625	462	460	757	782	1,120	940	876	1,140	830	822
Oranges	21	501	516	528	420	614	640	682	821	865	990	743
Tangerines	20	169	195	187	101	175	114	134	218	227	265	228
Apples	85	440	474	371	544	414	516	470	436	446	424	518
Pears	83	96	98	105	87	82	119	112	103	94	74	95
Peaches	148	189	186	158	238	113	203	224	248	236	278	266
Plums	150	42	39	43	44	41	63	64	62	66	64	73
Grapes	53	2,266	2,376	2,370	2,290	2,625	2,993	2,540	2,131	2,462	2,865	2,600
Tung nuts	75	93	125	108	42	175	103	137	68	142	110	140
Cattle exports [2]	[3] 110	196	292	166	102	119	208	163	160	104	58	48
Beef and veal	300	2,229	2,605	2,019	1,995	2,321	2,522	2,561	2,883	2,624	2,017	2,203
Mutton and lamb	260	156	151	135	163	188	204	209	193	176	175	103
Pork	295	714	157	154	212	233	217	183	205	210	245	198
Milk [4]	36	4,294	4,367	4,534	4,276	4,732	4,366	4,678	4,552	4,195	4,831	5,562
Wool, greasy basis [5]	580	188	179	190	197	202	190	174	180	175	162	170
Aggregates of production (million dollars at constant prices):												
Crops		1,240.5	1,280.6	1,400.3	1,231.4	1,286.6	1,418.2	1,246.9	1,347.3	1,467.4	1,493.6	1,348.3
Livestock		1,045.7	1,160.2	977.9	982.8	1,114.6	1,163.9	1,163.8	1,261.5	1,158.9	997.2	1,050.2
Livestock feed deduction (0.12)		−125.4	−139.2	−117.3	−117.9	−133.7	−139.6	−139.6	−151.3	−139.0	−119.6	−126.0
Total agriculture		2,160.8	2,301.6	2,260.9	2,096.3	2,267.5	2,442.5	2,271.1	2,457.5	2,487.3	2,371.2	2,272.5
Total food		1,908.8	2,045.2	2,014.3	1,849.5	2,020.7	2,231.1	2,063.8	2,225.4	2,229.4	2,182.3	2,067.4
Indices of production (1961–65=100):												
Crops		100	103	113	99	104	114	101	109	118	120	109
Total agriculture		100	107	105	97	105	113	105	114	115	110	105
Total food		100	107	105	97	106	117	108	117	117	114	108
Per capita agriculture		100	107	103	94	101	107	98	105	104	98	92
Per capita food		100	107	103	94	101	110	100	107	106	102	95
Index of population: 1961–65 population=21,792,000		100.0	100.0	101.4	102.9	104.4	105.9	107.4	109.0	110.6	112.1	113.7

[1] Preliminary. [2] 1,000 head. [3] Price per head. [4] Commercial use only. [5] Excludes wool on sheep skins.

TOTAL MEAT[1]: PER CAPITA CONSUMPTION IN SPECIFIED COUNTRIES, AVERAGE 1961–65, ANNUAL 1961–71

[In pounds]

Continent and country	Average 1961–65	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971[2]
North America:												
Canada	142	136	136	139	148	147	149	155	159	158	160	164
Costa Rica	34	33	37	34	30	38	34	30	24	27	30	34
Dominican Republic	22	22	23	22	22	20	20	19	19	19	20	21
El Salvador	26	28	26	26	26	25	24	23	22	21	20	19
Guatemala	22	24	23	23	22	21	21	21	24	21	21	21
Honduras	22	25	23	22	22	20	23	21	22	19	18	21
Mexico	37	37	38	38	38	39	38	36	35	36	36	39
Nicaragua	41	41	44	36	41	42	42	42	45	47	48	50
Panama	54	53	55	55	53	55	56	55	54	59	60	65
United States	167	160	163	169	174	168	171	178	183	182	186	192
South America:												
Argentina	199	214	217	217	169	180	201	207	213	228	211	173
Brazil	53	55	54	54	53	53	52	53	56	56	57	54
Chile	61	67	66	65	54	54	58	61	62	60	68	70
Colombia	56	57	58	57	56	53	49	51	53	54	60	59
Paraguay	104	121	113	91	97	98	104	91	95	88	90	71
Peru	36	34	36	38	35	35	35	33	32	29	31	30
Uruguay	241	233	227	250	233	264	212	214	211	170	196	156
Venezuela	51	50	49	51	52	51	53	53	52	57	54	53
Europe:												
Western:												
European Community:												
Belgium-Luxembourg	113	107	111	119	113	118	120	127	130	132	137	140
France	128	128	126	128	128	132	133	138	138	136	138	140
Germany, West	121	116	122	121	120	122	122	124	132	133	140	146
Italy	57	52	57	60	60	57	62	69	70	70	72	75
Netherlands	96	94	101	99	90	96	99	101	105	100	104	109

Average, European Community	102	98	102	105	103	104	106	111	114	114	117	122
Austria	121	118	121	120	121	121	121	126	127	132	133	136
Denmark	128	132	133	122	129	127	135	138	124	125	136	127
Finland	78	73	75	78	82	81	82	83	81	88	92	95
Greece	57	45	52	61	60	67	66	70	73	79	86	87
Ireland	110	103	107	110	115	119	116	113	117	123	130	137
Norway	79	78	78	80	82	81	81	82	83	83	82	85
Portugal	36	35	37	38	34	38	39	40	43	47	45	48
Spain	47	40	43	50	50	48	57	61	63	64	69	64
Sweden	101	101	104	100	103	100	99	99	103	102	104	104
Switzerland	112	106	112	110	117	115	116	119	122	125	130	134
United Kingdom	141	141	145	144	140	138	139	139	138	136	138	143
Eastern:												
Bulgaria	69	62	65	64	70	82	82	87	87	79	76	07
Czechoslovakia	101	100	101	100	102	102	107	107	114	112	116	118
Hungary	85	86	83	85	86	86	80	86	92	84	95	110
Poland	80	78	79	79	79	81	88	89	92	92	89	90
Yugoslavia	61	54	65	58	64	63	57	68	72	63	68	77
U.S.S.R.	68	63	68	72	62	73	76	81	82	81	84	89
Africa: South Africa, Republic of	77	76	77	86	76	78	77	70	71	77	80	83
Asia:												
China, Taiwan	42	41	43	41	42	43	47	53	53	54	59	60
Iran	18	19	19	19	18	18	18	19	20	21	19	18
Israel	31	18	26	31	39	38	50	38	46	45	44	41
Japan	13	11	14	13	14	15	18	19	19	21	23	27
Philippines	24	21	24	24	25	26	28	28	28	30	27	27
Turkey	33	35	34	33	31	31	32	31	31	33	33	32
Oceania:												
Australia [3]	209	197	215	216	218	206	201	193	201	208	202	212
New Zealand [3]	218	214	243	230	211	200	248	231	218	241	214	217

[1] Carcass weight basis; includes horse meat.
[2] Preliminary.
[3] Year ending June 30.

Source: "Foreign Agriculture Circular: Livestock and Meat," FLM 2-73, February 1973, U.S. Department of Agriculture, Foreign Agricultural Service, Washington, D.C.

Mr. GIBBONS. The next witness is Mr. E. Thurman Gaskill.

Mr. Gaskill, could you come up an relax for a little while. We are going to have our picture taken. We will be right back.

[A recess was taken.]

Mr. GIBBONS. Go ahead, Mr. Gaskill.

STATEMENT OF E. THURMAN GASKILL, MEMBER, ON BEHALF OF THE UNITED STATES FEED GRAINS COUNCIL, ACCOMPANIED BY ROBBIN JOHNSON AND ROBERT BOOK

SUMMARY

I. Liberalizing trade legislation and negotiations will boost American agricultural prosperity as much—and perhaps more—than any other farm policy decision.

II. Trade legislation and negotiations which liberalize and expand feed grains exports build jobs and prosperity throughout the economy.

III. The well-being of workers, consumers, taxpayers and the nation as a whole would be enhanced by liberalizing international rules governing trade in feed grains.

IV. Congress ought to express—clearly and unequivocally as the President did in his Trade message—that progress in agriculture will be among this nation's highest priorities in upcoming negotiations.

V. U.S. objectives ought to be: without interfering in domestic policies of any country or region, to bind levels of protection, to negotiate those levels down over time and to secure agreement that, to the maximum extent feasible, internal farm supports should not distort either production or consumption patterns.

VI. While it is always clear that to raise barriers involves more costs than gains, the President ought to enter these negotiations with sufficient authority to offer disincentives as well as incentives in order to get needed liberalizing reforms.

VII. Both the U.S. and other nations ought to approach these pending trade negotiations with an awareness of the grander design of foreign policy issues and interests at stake.

VIII. Both East and West stand to gain from the gradual and progressive maturation of economic and political relations that would follow upon extension of MFN treatment.

IX. The Council supports trade initiatives which promise expanding feed grains exports, more liberal trade and monetary policies and meaningful national investments in easing temporary burdens of adjustment.

Mr. GASKILL. I have wilth me Robbin Johnson and Robert Book.

My name is E. Thurman Gaskill. Though an Iowa farmer by profession, I am appearing today on behalf of the United States Feed Grains Council. The council is a nonprofit organization formed in 1960 to develop markets and expand dollar sales of U.S. feed grains abroad. Membership in the council reflects a unique support from a broad cross-section of individuals and industries—feed grains producers, seed companies, farm implement manufacturers, banks, agricultural chemical companies, processors, handlers, and exporters. These members, from widely different sectors of the American economy, share a common interest in expanding the export prospects for U.S. feed grains. The council seeks to further that interest by testifying today in support of prompt, favorable congressisonal action granting the President the trade-negotiating authorities he needs to meet our trading partners on an equal footing in discussions leading to reform, liberalization, and expansion of agricultural trade.

Given the understandable need to be brief, I will confine my remarks to a few central observations. I would like to submit for inclusion in the record, however, testimoy submitted by the council to the office of the Special Representative for Trade Negotiations, together with some accompanying information.

IMPORTANCE OF FEED GRAINS EXPORTS

Export markets are vitally important to U.S. feed grains producers, to the many industries which support American agriculture, and to a healthy economy overall. The importance of U.S. feed grains exports to America's farmers is obvious from the following figures: Feed grains exports from this country were 21 million metric tons in 1971 72; they grew by about 40 percent to slightly more than 30 million tons this fiscal year; and they are projected to reach 35 million tons in the coming year. This kind of export expansion has helped double total U.S. farm-product exports in just four years—from $5.7 billion in 1968–69 to an estimated $11.8 billion in 1972–73. Export expansion also builds farm incomes, which have ridden this export growth to a new record $19.8 billion this year. Finally, exports represent the production of about 85 million acres of farmland—nearly 30 percent of harvested cropland—and about one-sixth of all cash farm income. For these reasons, we believe that liberalizing trade legislation and negotiations will boost American agricultural prosperity as much and perhaps more than any other farm policy decision.

Expanding feed grains exports are equally important to the many industries that serve American farming and the job those industries provide. As a recent Tariff Commission study acknowledge, agriculture is one of America's truly high-technology industries.

This technological leadership comes from: high educational levels among U.S. farmers; investment in innovations by industries serving agriculture; and a cooperative effort among these farmers and these industries to undertake the risks involved in bringing new technologies into production. Two consequences have followed: First, productivity in agriculture has expanded at more than twice the rate for the non-farm segment of the economy over the past two decades.

Secondly, a very high percentage of earnings from feed grains exports in fact passes through farmers' hands into workers' pockets in the many industries serving agriculture. Our own research shows the following distribution of the feed grains export dollar: 29 percent goes to machinery, fuel and oil industries; 14 percent goes to the transportation industry; 11 percent goes to the agricultural chemical industry; 10 percent goes for storage and handling of grains; 6 percent goes for property taxes, interest, insurance, and other related expenses; 3 percent goes for seeds; and 27 percent remains with the farmer for his labor, management, and return on investment. This means that a far wider circle of individuals than farmers have a direct stake in liberalizing the rules governing agricultural trade. This circle would include: the factory worker who makes a tractor, farm truck, or other implement; the steelworker who makes the steel going into these products; the men and women who work on railroads and barges or drive trucks; people who work at elevators, terminals, or ocean ports; and employees of seed companies. The circle also includes the Main Street businessmen of rural communities and those who receive vital social services financed locally. Very simply, feed grain exports generate economic activity benefiting workers throughout the economy. As a result, nearly one-fifth of all U.S. jobs depend upon America's largest industry, agriculture. For these reasons, we believe that trade legislation and negotiations which liberalize and expand feed grains exports build jobs and prosperity throughout the economy.

Beyond these direct job-creating benefits of expanding feed grain exports lie a host of other contributions to the overall economy. Currently, the United States withholds land from production at the taxpayer's expense in an effort to manage total supplies of major farm commodities. As this past year has demonstrated, expanding export markets offer an opportunity to move some of this land back into production without destroying the economic existence of 4.4 million agricultural workers. The result is a more productive use of our resources and a lighter load on U.S. taxpayers.

In a time when the United States still has reserve productive capacities, expanding feed grain exports should benefit American consumers as well. Consumer concern about rising meat prices this past year undoubtedly has obscured this point, but both the historical record and rational analysis point to the consumer benefits of growing export markets.

For example, in the past 20 years, the percentage of consumer disposable income going for food has dropped from 23 to 16 percent, as food prices rose about 50 percent while average incomes climbed 250 percent. With people in Western Europe generally spending twice as much of their incomes for food, a major share of America's comparatively high standard of living can be traced directly to this remarkable performance by American agriculture. During the same period of time, agricultural exports have nearly quadrupled. In other words, expanding agricultural exports and reasonable food prices over time are compatible objectives.

This is what one would expect, given the economics of farming. Agriculture involves high, fixed capital investments in land, buildings, and machinery, plus a relatively fixed unit of work—the time available to the individual farmer. By contrast, the variable costs of expanding output—seeds, chemicals, fertilizers, fuel, and farm labor—are relatively low. Consequently, since feed grains exports increase total marketed production, they spread the high, fixed costs of farming over more units, lowering the cost of production per unit. This means that—in normal years, when markets can respond to changes, and over time—consumers in this country face lower per-unit food costs because of exports than they would in the absence of export markets.

Finally, feed grains exports make positive contributions to the Nation as a whole. For example, agricultural trade made a positive contribution to the U.S. balance of payments this past year of $3 billion, compared to a deficit of $9.7 billion for the non-agricultural trade sector. Looking toward the future, and especially toward America's mounting energy and raw materials needs, the logical question must be: How can we pay for increased imports of these goods in coming years? One obvious answer is: With agricultural exports. The so-called "Flanigan Report," for example, estimated that substantially complete liberalization in the grains-oilseeds-livestock sector of agricultural trade would increase farming's positive contribution to America's balance of payments to $8 billion by 1980. In other words, we believe that the well-being of workers, consumers, taxpayers, and the Nation as a whole would be enhanced by liberalizing international rules governing trade in feed grains.

BARRIERS TO BE ADDRESSED

In order to achieve the positive grains liberalizing agricultural trade would yield, a number of impediments must be addressed. In the first place, past trade negotiations have treated agricultural issues apart and separate from industrial trade issues. Consequently, while there has been substantial progress in liberalizing industrial commerce, there has been very little, if any, progress on the agricultural front. Moreover, two of the major trading areas that would gain relatively less from agricultural concessions—the European Community and Japan—are among the trading areas whose agricultural policies most distort trade flows. They will not be eager to negotiate on agricultural trade.

Therefore, Congress ought to express—clearly and unequivocally as the President did in his trade message—that progress in agriculture will be among this Nation's highest priorities in upcoming negotiations.

Secondly, while there are some tariff barriers to agricultural trade which could be fruitfully reduced, the major impediments are non-tariff barriers. These include: import quotas, variable levies, state-trading, export subsidies, and restraints on foreign investment in market development. Dealing with such complex issues makes advance, specific negotiating authorities impractical and ill-advised. Different barriers will require different techniques, and an overall package of concessions will probably emerge only gradually over time. In general, however, U.S. objectives ought to be: without interfering in domestic policies of any country or region, to bind levels of protection, to negotiate those levels down over time and to secure agreement that, to the maximum extent feasible, internal farm supports should not distort either production or consumption patterns.

Obviously, negotiations of this magnitude and complexity represent an ambitious undertaking. Moreover, they come against a background of on-going discussions of international monetary relationships. In these currency discussions, the United States has argued—rightly—that reform of international trading rules and reform of international monetary policies must be linked. This is necessary in order that adjustments to currency imbalances can be reflected fully and on a timely basis in trade flows—an objective which has been prevented by the many non-tariff barriers to agricultural trade. Such a coordinated approach to managing international economic problems will not only require Presidential authority to offer concessions to our trading partners, but also authority to protect American interests where our trading allies are not forthcoming in working toward mutually beneficial solutions to common problems. Thus, while it is always clear that to raise barriers involves more costs than gains, the President ought to enter these negotiations with sufficient authority to offer disincentives as well as incentives in order to get needed liberalizing reforms.

Finally, international trade negotiations are just one part—but a vital part—of our overall foreign relations. The world's progress toward more peaceful cooperation in resolving political differences needs to be reinforced by greater cooperation in resolving economic differences. Unfortunately, these economic disputes have been left to accumulate in recent years. Moreover, if they are not settled in an open and mutually beneficial manner, these irritants could grow into serious strains on major relationships. Consequently, both the United States and other nations ought to approach these pending trade negotiations with an unawareness of the grander design of foreign policy issues and interests at stake.

While my statement has focused upon agricultural trading relations with the Western world, I could not conclude without a comment upon East-West trade relations. In the past year, Russia, nations of Eastern Europe, and the People's Republic of China have purchased approximately $1.5 billion of U.S. agricultural exports. Given their needs and apparent commitments to upgrading the diets of their people, these countries should continue to be strong markets for U.S. farm-product exports, especially feed grains and soybeans. In spite of the enormous economic gains to the United States offered by these markets, there are those who believe that extending most-favored-nation treatment to the Soviet Union should await further political concessions than those already made. Honest men can differ on such delicate points, but the council believes that both East and West stand to gain from the gradual and progressive maturation of economic and political relations that would follow upon extension of most-favored-nation treatment.

CONCLUSION

The council vigorously supports trade initiatives that would expand U.S. feed grain exports along the lines of our comparative advantage. We believe that such a policy, on balance, produces greater benefit than harm.

A truly freer trade policy serving national objectives, however, necessarily ought to make generous and responsive provisions to aid those who must adjust to changed circumstances. The council supports trade initiatives which promise expanding feed grains exports, more liberal trade and monetary policies and meaningful national investments in easing temporary burdens of adjustment.

Thank you.

[Supplementary information provided follows:]

APPENDIX I

This statement is submitted by the U.S. Feed Grains Council, a nonprofit organization formed in 1960 for the sole purpose of developing markets and dollar sales of U.S. feedgrains abroad. The Council enjoys a unique support from a broad cross section of individuals and industries—feedgrain producers; seed companies; farm implement manufacturers; banks; agricultural chemical companies; processors, handlers, and exporters.

The notice announcing these hearings declared that their purpose "is to provide an opportunity to the public to present all facts and views pertaining to the effect on U.S. exports of the accession to the European Economic Community of the United Kingdom, Denmark, and Ireland." The United States Feed Grains Council welcomes this opportunity to state publicly its views on the impact of accession of these three countries to an enlarged European Community (EC), especially the impact on U.S. exports of feedgrains.

Our comments are focused primarily upon the question of what compensation an enlarged EC owes to the U.S. under provisions of General Agreement on Tariffs and Trade (GATT) Article XXIV: 6. Such compensation is required when a higher or more restrictive general incidence of duties and commercial regulations results from institution of a custom union. Extenion of provisions of the Community's Common Agricultural Policy (CAP) to the three new member countries significantly increases the restrictiveness of regulations governing trade in agricultural commodities. The issue of appropriate compensation owed the U.S. unfolds, however, in a broader context as well. Specifically, the major Contracting Parties of the GATT have committed themselves to undertake broad-scale trade negotiations, currently scheduled to begin in September, 1973.

Consequently, this statement addresses itself to three issues: (1) the case that can be made for compensation owed the U.S. in agricultural trade, with special reference to exports of feedgrains; (2) how extension of the CAP to the three new member countries injures U.S. exports of and world trade in grains; and (3) the relationship between GATT Article XXIV: 6 negotiations and the need to secure liberalization of world agricultural trade in the crucial grains-livestock sector through prospective broad-scale trade negotiations.

I. The Case for Compensation

GATT Article XXIV :6 clearly spells out the right of countries like the United States to demand compensation where entrance into a customs union results in higher or more restrictive commercial regulations. The United States is not obliged to accept any specific compensatory offers advanced by the EC. Article XXIV: 6 also states that, in determining the amount of compensation owed, "due account shall be taken of the compensation already afforded by the reductions brought about in the corresponding duty of the other constituents of the union." These requirements of the GATT have formed the official positions taken by the Community and the United States at the beginning of XXIV: 6 discussions.

The position of the European Community appears to be that no compensation is owed to the United States as a result of extension of the CAP to the three new members because the adoption of the Common External Tariff by the new members—especially the United Kingdom—will result in a lower general incidence of border barriers to U.S. industrial exports. The initial position of the United States appears to be that the U.S. is not obliged to accept any particular compensatory package and that the U.S. needs and deserves to be compensated in those areas where its trade with an enlarged Community will be hurt—including especially U.S. feedgrain exports. Consequently, rather than accept the Community's position, the U.S. could withdraw past tariff concessions of its own of an equivalent value. In response, it appears that, with the current voting strength the Community can marshall within the GATT through its own and associate members, the Community could claim that the U.S. was seeking to be over-compensated and respond by withdrawing concessions on U.S. exports of an equivalent amount.

Clearly, this would be a frustrating, useless and self-defeating course of action for both the U.S. and the enlarged Community. As past experience indicates—for example, the so-called "chicken war" of the 1960s—a withdrawal of concessions by both parties benefits no one. Instead of enlarging export markets, the volume and value of trade is likely to decline, and consumers in both countries end up paying for the products on which concessions have been withdrawn.

In their own interests, therefore, both the U.S. and the enlarged Community should approach the Article XXIV :6 discussions with a view to developing reasonable and practical solutions to some very difficult and complex problems. A useful step toward achieving a reasonable resolution of problems posed by enenlargement in a manner advancing the cause of liberalizing trade could be made by the Community. The EC could make this progressive step by acknowledging that the general incidence of customs and commercial regulations does not affect the ultimate distribution of gains and losses resulting from enlargement. Formation of a larger European customs union means that the United States will lose some important commercial advantages the most-favored nation principle of GATT was designed to protect. As a consequence of enlargement, the nine member countries secure preferential access to a tremendous industrial market. This reduces the benefits to the U.S. of most-favored nation treatment far beyond what the U.S. gains from some lower industrial trade barriers around the United Kingdom market. Compensation to the U.S. for injury to our agricultural exports to the three new member countries—even if it represents what the EC views as over-compensation within the terms of reference to Article XXIV:6—would represent very modest payment for the benefits accruing to EC member nations of forming a larger customs union.

Beyond avoiding a potentially fruitless joint withdrawal of past concessions such an attitude on the part of the Community has much to recommend it. In the first place, it should be possible within the framework of the CAP for the EC to make some offiers in the area of agricultural trade that help compensate for past concessions lost due to accession. This should be possible without destroying the principle of having a common agricultural policy providing some margin of preference to domestic Community producers. Specifically, it is not necessary to undermine the CAP to ensure that U.S. feedgrain exports are not to suffer injury and unfair treatment. Undoubtedly, the Community would encounter some resistance from their own farmers. But the Community also ought to recognize some solid economic advantages to itself from such flexibility.

As per capita incomes mount in the Community, consumer demand for meat will grow. By liberalizing access for U.S. feedgrain exports to the Community market, European consumers would find more meat available at more reasonable prices. A better relationship between feed and livestock prices than currently exists in the Community would also likely stimulate European livestock—especially beef—production. This would benefit smaller European producers who are currently foreclosed from sharing in the economic benefits of land-intensive grain cropping but who could capitalize on labor-intensive livestock production. Moreover, the balance-of-payments burdens of responding to rising European consumer demand for meat through expanded feedgrain imports in support of a healthier domestic livestock economy would be less than by increasing imports of meat products.

Furthermore, the enlarged Communtiy ought to recognize that U.S. demands for compensation in the area of agricultural trade reflect intense political and economic pressures in the United States. U.S. agricultural exports—especially feedgrain exports—have been seriously damaged by the Common Agricultural Policy since its inception and especially since price unification. In a period when world feedgrain trade has been growing rapidly and U.S. feedgrain exports to the rest of the world expanding dramatically, U.S. feedgrain exports to the Community of Six have actually declined from $537 million in fiscal year 1966 to $365 million in fiscal year 1972. In spite of this disappointing performance, U.S. feedgrain producers have continued to support freer trade policies in the U.S. That support cannot continue indefinitely, however, in the face of these kinds of developments in a principal developed, industrial market. Since an enlarged Community will constitute the largest trading entity in the world, a flexible attitude toward liberalized access for U.S. feedgrain exports would be an encouraging signal to farmers and Congressmen in the United States who share the Community's interest in freer and more equitable trading rules.

Consequently, compensation for injury to U.S. agricultural—especially feedgrains—exports appears justified on several grounds: (1) it would help forestall an escalating withdrawal of past concessions by both the U.S. and the EC that benefits no one and leaves everyone worse off; (2) concessions in the grains sector could be of real benefit to EC consumers, small EC livestock producers and the balance-of-payments burden of meeting rising consumer demand for upgraded diets; (3) EC flexibility in the grains sector would signal a forthcoming attitude of mutual benefit to the Community and the U.S. in furthering the cause of more liberal and equitable international trade; and (4) reasonable compensation to the U.S. for the consequences of extending the CAP to three new countries represents a modest payment justified by the benefits accruing to the member nations and disadvantages accruing to the U.S. as a result of replacing most-favored-nation tariffs with a customs union in a major industrial market.

II. The Nature and Extent of Injury to U.S. Agricultural Exports

Extension of the Common Agricultural Policy to the United Kingdom, Ireland, and Denmark seriously and adversely affects U.S. agricultural—especially grains—exports to those countries in five ways: (A) it increases the barriers on U.S. grains exports to those nations substantially; (B) it increases the barriers on grains exports to those nations from our principal competitors, thereby intensifying competition in remaining markets; (C) by raising internal prices in the absence of restraints on production, it provides incentives encouraging uneconomic grain production; (D) by raising internal prices and distorting price relationships between grains and livestock and among alternative feed ingredients, it retards growth in grain consumption and encourages substitution of other products for grains in animal feeds; and (E) it provides for subsidies—either to denature wheat for feed or to move surpluses into export—which displaces potential U.S. and other country grain exports.

A. INCREASED BARRIERS TO U.S. GRAIN EXPORTS

The past six months have witnessed an extraordinary increase in world grain prices as a result of temporary shortfalls in the crops of a number of major producing nations. At the same time, the Community experienced a very good harvest—at 86 million tons for the EC-Six, an increase of 36 million tons in little more than a decade. As a result, world trading prices for grains have appreciated dramatically over typical levels in recent years while prices within the EC have held more stable. This has narrowed the difference between the lowest world offering price to the EC and the threshold price, resulting in lower variable levies. Perhaps a more realistic indication of the magnitude of protection afforded domestic producers by the variable levy and the degree to which border barriers will be increased for the three new member countries is provided by world price and duty levels in early August, 1972, before the major price escalation due to cyclically short world grain supplies. This comparison is provided by the following table:

AUG. 2, 1972, PRICES AT ROTTERDAM AND GRAIN IMPORT CHARGES BY THE EC SIX

[Dollars per bushel]

Item	August 2		EC import levy
U.S. No. 2 HW: 13.5 percent	$1.82	Wheat	[1, 2] $1.85
No. 3 Hard Amber Durum	1.92		
U.S. No. 3 Yellow corn	1.51	Corn	[2, 3] 1.25
U.S. No. 2 Sorghum	1.49	Sorghum	[2, 3] 1.23

[1] Durum has a separate levy.
[2] Effective Oct. 14, 1971, validity of licenses with levies fixed in advance is a maximum of 30 days.
[3] Italian levies are 21 cents a bushel lower than those of other EC countries.

Note: Basis 30- to 60-day delivery.
Source: Foreign Agriculture, Vol. X No. 32 (Aug. 7, 1972), 10.

In other words, as a rough measure, EC wheat levies are approximately 100 percent of typical world wheat prices, delivered at Rotterdam, and feedgrain levies are approximately 80 percent of world feedgrain price levels.

The impact of having the three new member countries move toward this scale of border protection against grain imports is dramatic. The impact will be greatest in Britain, which has traditionally maintained low farm prices while supplementing producer incomes through deficiency payments. In anticipation of accession to the Community, however, the United Kingdom began to move away from their deficiency payment system in the late 1960's. Consequently, internal grain prices to consumers in the United Kingdom as well as prices to producers will increase about 100 percent under the CAP from the situation in the United Kingdom during the mid-1960's. The combination of two factors—changes away from the deficiency payment system in the late 1960s and likely elimination of certain subsidies on producer inputs—will scale the actual impact on consumer food costs and on incomes and production incentives down somewhat from what they would have under circumstances prevailing at an earlier time. Nevertheless, the increase in internal prices and border protection of grains for the three new members will be large, as indicated in the following table:[1]

[1] U.K. grain import duties would be even lower than the present levels given here in the absence of temporary suspension under the U.S.-U.K. grains agreement of duty levels bound under GATT. For example, the U.K.'s MFN duty rates for wheat and corn effective January 1, 1972 would be zero in the absence of this temporary suspension. Source: Foreign Agriculture, Vol. X., No. 8 (February 21, 1972), 5–6.

GRAIN IMPORT CHARGES BY THE EC SIX AND NEW MEMBER COUNTRIES UNDER PRESENT SYSTEM AND UNDER COMMON AGRICULTURAL POLICY AS OF FEB. 1, 1973, AND BY JAN. 1, 1978

[Dollars per metric ton]

Country or area	Non-Durum wheat	Durum wheat	Barley	Corn	Sorghum
EC-Six, as of Feb. 1, 1973	$73.66	$78.32	$58.50	$53.95	$53.23
United Kingdom, under present system, variable levies	[1] 25.16	0	12.38	13.70	12.53
As of Feb. 1, 1973, variable levies	25.55	7.21	12.54	13.88	12.69
As of Jan. 1, 1978, variable levies	73.66	78.32	58.50	53.95	53.23
Denmark, under present system, prior to Aug. 1, 1972, variable levies [2]	15.53	0	13.14	11.25	11.75
As of Feb. 1, 1973, variable levies	62.86	66.49	49.18	53.95	53.23
As of Jan. 1, 1978, variable levies	73.66	78.32	58.50	53.95	53.23
Ireland, under present system	0	0	0	0	0
As of Feb. 1, 1973, variable levies	65.52	55.38	42.37	28.98	26.10
As of Jan. 1, 1973, variable levies	73.66	78.32	58.50	53.95	53.23

[1] For EC-type soft wheat. Levies would be different for other wheats.
[2] A minimum import price of DKr525 ($70) per ton is assumed instead of the higher minimum prices adopted after July 1972 in anticipation of EC entry. VL-variable levies, based on Aug. 1, 1972, world prices.

Source: Foreign Agriculture, vol. X., No. 40 (Oct. 2, 1972), 8.

This table indicates two striking facts. First, different new member countries are adapting to the CAP system at different rates. Denmark is moving almost immediately to variable levies at heights currently implemented by the Six. Ireland is moving more quickly in that direction for wheats and more slowly for feedgrains. The United Kingdom is making very little shift upward in her variable levies initially. This means that the trade, production, and consumption effects of the CAP will unfold in each of the new member countries at different paces. Secondly, once the transition to the CAP is completed on or before January 1, 1978, internal prices and levels of border protection will be significantly higher than at present. In the United Kingdom—our most important market of the three—the change will represent an increase of from $40 to $50 per metric ton.

Increases of this magnitude in internal prices and levels of border protection will seriously undermine U.S. agricultural exports to these three nations, which over the past decade have represented a market for about $600 million in U.S. agricultural exports annually. Our principal grain exports to these three nations—wheat, corn and barley—totaled about $180 million in 1971. While they have fluctuated from year to year, on the average U.S. grain exports to these three nations have represented about $200 million annually.

B. INCREASED BARRIERS TO GRAIN EXPORTS FROM ALL THIRD COUNTRIES

Beyond the direct impact on U.S. grain exports to these three new member countries extension of the CAP will affect a market for approximately 10 million tons of net grain imports annually over the past decade from all sources. The U.S. share of this market has traditionally been about one-quarter to one-third. If, instead of moving to variable levies under the CAP, the United Kingdom were to shift back to the low or zero duties bound under the GATT and Denmark and Ireland were to maintain present price levels, over the next five years net grain imports into these three nations could rise to 15 million tons. The United States—as a very competitive supplier of grains—could anticipate capturing a sizeable portion of this increase and at least our historical share of this market. On the other hand, with high grain prices and high levels of border protection rapidly eroding this important grain export market, the U.S. stands not only to lose its very valuable share of this market but also to face intensified competition from other traditional exporters in remaining markets. Consequently, the U.S. grain export loss should be measured not only by the present dollar value of exports to these three nations but also by the dollar value of all grain exports to them, since this latter standard provides a rough gauge of the increased grain export competition the U.S. will face in other traditional markets.

C. ENCOURAGEMENT TO UNECONOMIC GRAIN PRODUCTION

As indicated earlier, grain price levels under the CAP are approximately twice world price levels under normal market conditions. At the same time, the

CAP imposes no restraints on production. The combination of artificially high grain prices shielded from external competition and total absence of restraints on production is likely to lead to a large increase in internal grain production. In this connection, the experience of the EC-Six is illuminating. Total grain production in the EC-Six rose from about 50 million tons in 1961 to 86 million tons this past year. Between 1960–64 and 1971, EC wheat production increased by about 40 percent (from about 26 to about 34 million tons), barley production by approximately 50 percent (from nearly 11 to just over 16 million tons) and corn production by 110 percent (from 6.4 to 13.4 million tons).

Similar consequences are likely to follow upon adoption of CAP grain policies in the three new members. As one indication, a study by Michigan State University projected that grains production in the United Kingdom would rise from about 13.4 million metric tons in 1968 to 18.4 million tons by 1980 under a continuation of the deficiency payment system. Under adoption of the CAP, however, 1980 production would reach an estimated 22.8 million tons. Instead of a projected grains deficit of nearly 6.3 metric million tons, production and consumption of grains in the United Kingdom under the CAP would be nearly in balance by 1980.[2]

D. RETARDED GROWTH IN GRAIN CONSUMPTION

High internal grain prices insulated from international competition not only spur grain production; they also retard growth in grain consumption, especially of grains for animal feed. In the first place, high grain prices retard expansion of a domestic livestock industry, since grains represent an input cost in animal husbandry. The experience in the EC–Six is again illuminating. For example, while France increased her grain production by 87 percent between 1960 and 1969, she was able to raise her livestock production only 41 percent, in large part because high grain price support levels attracted capital away from the livestock sector. The relationship between livestock and grain prices will be especially important for farming decisions in the United Kingdom, where the potential for increasing total land area in farming is constrained by geography and population pressures. As a result, land for use in grain cropping and land to be used as grasslands for extensive meat production are directly competitive. To the extent that high grain prices draw capital and land toward grain cropping and away from extensive livestock production, not only is grain production artificially stimulated but grain consumption is retarded, since animal numbers are artificially depressed.

Utilization of grains for feed is also depressed by high grain prices which distort the economics of feeding and encourage displacement of grains in feeds by *artificially* cheaper feed substitutes. As a result of distorted price relationships under the CAP, the grain component in feeds in The Netherlands, for example, declined from 66 to 35 percent over the past decade. In commenting upon a similar potential under adoption of the CAP by the three new members, the study of the impact of accession made by Michigan State University observed:

"If, for example, the cereal component of concentrated feeds in the U.K. dropped from the current level of approximately 71 percent to 50 percent, cereal consumption by livestock would decline from the projected level, with entry, of 13.5 million metric tons to about 9.5 million metric tons. A similar shift in Irish feed utilization would result in 700,000 metric tons of cereal being fed in 1980 rather than 1,060,000 metric tons projected. If the cereal component in Denmark dropped from the current level of approximately 80 percent to 50 percent, projected cereal consumption by livestock in 1980, with entry would drop from 7,922,000 metric tons to about 4,952,000 metric tons. The total shift in the three countries would amount to over 7 million metric tons."[3]

To these figures, several other observations should be added. In the first place, per capita incomes in the enlarged EC are expected to rise rapidly over the next decade. Past experience in the United States, Western Europe, Japan, and elsewhere indicates that rising per capita incomes correlate directly with rising per capita demand for more meat in consumer diets. With per capita meat consumption in the EC currently only about 60 percent of the U.S. standard, there is ample room for growth in European meat consumption and, under appropriate farm

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[2] *The Impact on U.S. Agricultural Trade of the Accession of the United Kingdom, Ireland, Denmark, and Norway to the European Economic Community,* Research Report No. 11, Michigan State University Institute of International Agriculture (MSU, 1971), 8.

[3] *Impact,* op. cit., 13–14.

policies, expansion of European meat production. The multiplied impact this could have on utilization of grains for feed can be illustrated by the following rough rules-of-thumb: it takes about 8 pounds of feed to produce a pound of beef; four pounds for a pound of pork; and 2¼ pounds to produce a pound of broiler. In other words, the impact of accession on U.S. grain exports unfolds at two levels. First, there are the likely negative impacts on U.S. grain exports to an expanded EC arising from the likely production and consumption consequences of extending the CAP in its present form. Secondly, and more importantly, there is a vast potential in an enlarged EC for increased grain utilization and grain import demand, if farm policies moved toward encouragement of livestock production to meet latent and rising per capita consumer demand for meat and trade policies were substantially liberalized.

E. SUBSIDIZED DISPOSAL OF SURPLUSES

Because of high internal grain prices and distorted relationships between grain and livestock prices and among various grains, the EC has frequently been troubled by large grain surpluses, especially of soft wheat. As a result, the CAP includes export subsidies and subsidies to denature wheat used for feed in order to dispose of these surpluses. On many occasions, EC export subsidies have been higher than the world market price for the product. In early 1970, for example, the world price for soft wheat was around $50 per ton, and the Community export subsidy was $57 per ton. As a result of such subsidies, France has sold feed wheat in markets as far away as Taiwan for 99 cents per bushel, a price only made possible by export subsidies which seriously undemine markets for traditional exporting nations and seriously disrupt normal world commercial markets. Extension of export and denaturing subsidies to the three new members is likely to lead to displacement of feedgrain exports to those countries as well as the threat that international grain markets could be disrupted by heavily subsidized dumping of Community surpluses.

In view of all of these ramifications of enlargement, it seems quite reasonable to suggest that the cost of extending CAP to three new countries would very likely be the complete loss to traditional suppliers—including the United States—of a market for 15 million tons of grain within five years. This is a tremendously high price to pay. American grain farmers and the nation as a whole cannot lightly regard a loss of this magnitude without compensation in the area of affected trade—that is, in the area of grain exports.

THE RELATIONSHIP BETWEEN ARTICLE XXIV:6 AND BROAD-SCALE NEGOTIATIONS

The above analysis indicates and supports two conclusions. On the one hand, the United States needs and deserves some compensation for its threatened grain export market in the three new member countries. The United States cannot afford again to make agricultural exports the victim of European policies of economic integration. Community officials must recognize that the U.S. needs to make reasonable provisions in her trade agreements and trade relationships for feed grain exports. Given the importance of some progress in this area under Article XXIV:6 discussions, given the benefits accruing to the member nations from formation of a larger European customs union and given the mutual stake of the United States and the EC alike in resolving these differences through trade liberalization rather than the retrograde step of withdrawing concessions, it should be possible to achieve reasonable accommodation of U.S. grain export interests through negotiation and agreement in these discussions.

At the same time, an analysis of the trade effects of the CAP—both through extension to three new members and through its application to the whole EC of Nine—demonstrate that the need for liberalization in the crucial grains-livestock sector goes beyond the limited scope of XXIV:6 negotiations or the value of trading rights the U.S. has under those discsusions with which to achieve some compensation. Moreover, the need to achieve fundamental reform and liberalization of the rules governing trade in grains and other agricultural products reaches beyond the European Community to embrace other major trading partners of the U.S. Finally, over time the major impact of protective policies in the grain sector must be measured not simply by the magnitude of current trade barriers and trade diversion. Rather, the major impact will come from patterns of investment in grains or livestock production and the dramatically different utilization rates for grains as feeds that would result.

It is these dramatically different production and consumption responses that will be determined by trade and farm policies conceived now that make the case for resolving agricultural differences through liberalization of trade and domestic policies most compelling. Consequently, it is important for all parties—both in the U.S. and in other countries—to look beyond these Article XXIV: 6 negotiations to the multilateral trade negotiations endorsed by all of the principal trading nations. These are scheduled to get under way this Fall.

Liberalization of trade in the grains-livestock sector is one area where the U.S. clearly stands to gain from successful trade negotiations. Our climate and soil conditions give us a natural advantage in production of grains and oilseeds. We have also made tremendous investments in developing and implementing new technologies. In fact, the most recent Tariff Commission study identified agriculture as one of our truly high technology industries. Over the past twenty years, agricultural productiivity has increased at twice the rate for manufacturing. U.S. farm programs in the grains sector have moved increasingly toward greater responsiveness to the forces of supply and demand. More and more U.S. producers have taken advantage of the flexibility in the market-oriented policies of the Agricultural Act of 1970. Last year, 95 percent of all U.S. farmers capitalized on this freedom of planting decisions, shifting 70 million acres from crops planted under old allotments and bases. Shifts among farms and among geographical regions have increased American farm productivity and efficiency. The resulting increase in our agricultural competitiveness is manifested in the estimate that substantially complete liberalization in the grains-livestock sector of agricultural trade would boost U.S. farm exports to more than $18 billion and agriculture's contribution to our sagging balance of payments from $3 billion to $9 billion. It would boost net farm income by $4 billion, while eliminating taxpayer costs of government payments to producers. Finally, lower food prices abroad would boost consumer well-being an estimated $33 billion in Japan and $10 billion in the EC.

Complete liberalization of the rules governing international trade in grains cannot be achieved under the Article XXIV: 6 negotiations. The hoped-for result of those discussions must be more modest. But, in view of the benefits to American farming, the U.S. economy, rising per capita meat demand around the world and to our beleaguered trade balance, substantially complete liberalization of trade in the grains-livestock sector ought to be a basic national objective of our trade policy in prospective multilateral trade negotiations. Undoubtedly, such an objective will be difficult to achieve. It will also take time. It will require reasonable alternatives here and abroad to present policies. But it is a worthy objective that could make a major contribution to on-going support for a freer, more open, more equitable world trading system.

Thank you.

Appendix II

The preceding statement—submitted to the Office of the Special Representative for Trade Negotiations—offers a reasonably succinct analysis of the various ways in which agricultural trade barriers distort farm-product flows. In the area of feed grains, especially, such distortions fall especially hard upon U.S. farmers, U.S. exports and national bell-being.

The European Community's Common Agricultural Policy, however, is not the only set of domestic farm policies coupled with border protections which results in trade distortions. Most nations, including the U.S., maintain at least some barriers that distort agricultural trade. What follows is a copy of a reasonably complete analysis of some of the barriers to trade in the major grains for a number of the principal trading nations. Even that discussion, however, is incomplete. For example, Japanese restraints on foreign investments in the compound feed business, coupled with central control of the rate of expansion of the feed industry as a whole and large subsidies paid in recent years to denature rice for animal feeding in order to dispose of large rice surpluses resulting from high price support levels for that commodity, have combined to restrict the rate of growth of U.S. feed grain exports to that market. Nevertheless, the study provides a useful survey of principal trading barriers to agricultural products.

Trade Policies [1]

A realistic evaluation of import demand for grains must take into account any regulations on trade flows. In other chapters, the demand effects of factors such as incomes and prices are analyzed. But trade may be a necessary source of

[1] Source: World Demand Prospects for Grain in 1980, With Emphasis on Trade by the Less Developed Countries, Foreign Agricultural Economic Report No. 75, ERS, USDA (December 1971), 13.23.

supply to fulfill demand. Hence, projections of trade that are made within a supply-demand framework must also consider the influence of trade policies.

A common objective of most commodity trade policies throughout the world is price stabilization. Most often the effort is directed to producer prices, but for some importing countries, policies may be geared to consumer prices as well. Policies can be either restrictive or stimulative to trade. Implementation of trade policies takes on many forms—tariffs, levies, quotas, embargoes, standards and grades, subsidies, and concessions on terms of trade. In addition, there are international commodity agreements, including the International Wheat Agreement (IWA).

AGRICULTURAL IMPORT BARRIERS [2]

This section draws on project research on trade policies of selected countries in the developed area (*12*).[3] It is basically descriptive and does not assess the effects of these countries' trade barriers. The effect of the barriers is taken into account in the mathematical projection model discussed in chapter IV.

The import trade barriers are outlined in table 7 and are discussed below by type of grain and country, and, in some cases, their "height" is evaluated. Even though import quotas of a very large size offer little protection, they are inherent handicaps to trade because they can be easily reduced by administrative action. Therefore, it is useful to know the size of import quotas by country and grain so that comparisons of quota size can be made between countries and over time.

To make such comparisons on a more meaningful basis than tonnages alone, a list of quotas by country can be conformed to reflect differences in country size. No method of making such an adaptation is ideal, but at least two methods seem to be acceptable. First, quota size can be related to the size of a country's economy or aggregate demand for goods and services by dividing quota tonnages by gross national product (GNP), national income or private consumption expenditures. For example, if country A's quota on imports of commodity X were 10,000 tons, and its GNP $90 billion, the quota per billion dollars GNP would be 111.1 tons. Second, quota size can be related to population by dividing quota tonnages by population—this is a conventional method that uses a per capita base. For example, if country A's quota on imports of commodity Y were 140,000 tons, and its population 50 million, the quota would be 2.8 kilograms per person. The two methods permit intercountry or temporal comparisons of quota sizes for the same commodity, but they do not allow intercommodity comparisons.

For simplicity, the second method—import quotas per capita—is used in this report. The objective here is a simple expression of the intuitive conclusion that for commodity Z, a Japanese quota of 25,000 tons is not really equivalent to a Greek quota of the same tonnage.

The "height" of a trade barrier is the amount of quota (in kilograms per capita), the ad valorem rate of a tariff, or the ad valorem equivalent rate of a specific duty.[4] By definition, the higher the tariff rates or the smaller the quota per capita, the "higher" the trade barrier. For comparability, all specific duties were converted into dollars per ton (at par value exchange rates of 1969), regardless of the units in which these duties were stated in national tariff schedules. However, a trade barrier's height is merely descriptive, and such a description does not imply an assessment of possible restrictive effect on trade volume.

A state trading agency or a governmental import monopoly may encompass the concepts of both tariff and quota, as well as normal marketing functions, such as purchase, storage, transport, and sale. Therefore, a government import plan is a quantitative regulation or a quota if import purchase decisions are exclusively in government hands. Though government import plans are frequently revised as a year progresses, they may be viewed as a de facto annual quota.

State trading implies that a government monopoly takes title to shipments at the point of importation. Taking title and reselling by the monopoly may be almost instantaneous, or the monopoly may retain title to the imported goods and store them.

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[2] This section was prepared by Joseph R. Barse, Foreign Develop. and Trade Div., ERS.

[3] Surveyed in this section are the United States, the EC, Japan, the United Kingdom, Denmark, Finland, Ireland, Norway, Sweden, Switzerland, Austria, Portugal, Spain, Greece, Canada, Australia, New Zealand and the Republic of South Africa. Unless noted otherwise, the time period is the late 1960's.

[4] In the case of an embargo, the term "no quota" is not used because it would not be clear whether it referred to "no quantitative regulation" or conversely "import embargo." However, the term "zero quota" is used to mean "de facto embargo."

Moreover, the commodities may also be transported at government expense while under monopoly ownership. As a result, at the time the government monopoly sells the imported goods to wholesalers on the domestic market, it may be difficult to determine how much of the state trading price markup is attributable to storage, transport, and normal marketing functions, and how much to a partly concealed import tax. Such a tax, or "skimming," is analogous to a specific tariff or other tax paid on importation, and can be converted to an ad valorem equivalent tariff levied upon the c.i.f. price at which the monopoly took title to the commodity.

In most of the entries in table 7, the countries of the European Community are considered as a regional aggregate, since they have a Common External Tariff and a Common Agricultural Policy. The common policy arrangements for wheat, rice, and coarse grains are highly complex. The tables in this chapter refer only to the portion of each common policy which is a trade barrier in a formal sense. It is acknowledged that the trade barrier portion of a common market regulation is highly interdependent upon other parts of the same regulation.

Wheat

Of the 18 countries surveyed (the EC is classified as one country), 15 maintained quantitative regulation of wheat imports in the form of tonnage quotas, state trading, or embargoes (table 7). The EC, the United Kingdom, and Sweden did not have these quantitative regulations. Switzerland assigns the amount of domestic wheat to be used for food milling, making import needs for food wheat a residual amount. In addition, Switzerland employs a direct quota on total imported feedstuffs to control imports of feed wheat.

The presence of wheat import embargoes in traditional exporting countries such as Australia and Canada is not surprising, though the severe wheat import regulations of Spain and Denmark seem unusual for countries which are not major exporters.

In 1969–70, the variable levy on wheat in the EC was equivalent to an 89-percent tariff (annual average). The Swedish tariff equivalent was 86 percent (table 9). The United Kingdom's deficiency payment system is a way of insulating returns to U.K. farmers from world market prices. The deficiency payments also permit British wheat offered domestically to undercut U.K. import prices (c.i.f. plus inland transport and storage) of comparable foreign wheats. Normally, this could be done even without the small variable levy on wheat imports which was imposed from time to time.

International trade in wheat has been subject to special trading agreements almost continuously since 1949. The first International Wheat Agreement (IWA) was effected on August 1, 1949, and its successor, the International Grains Arrangement, became effective on July 1, 1968, for a duration of 3 years. The IGA consists of two legal instruments—a Wheat Trade Convention and a Food Aid Convention.[5] The Wheat Trade Convention, which is a stabilizing instrument, prescribes a price range for international trade. The Food Aid Convention commits participating countries to contribute wheat, coarse grains, or the cash equivalent as aid to less developed countries to an amount of 4.5 million tons annually.

International commodity agreeemnts have met with varying degrees of success and the IGA and its predecessor are no exceptions.[6] The price levels of the IGA have failed to hold up under world supply and demand situations and have been well below the established minimums.

A new International Wheat Agreement was concluded in Geneva on February 20, 1971, to replace the expiring IGA. The IWA, like the IGA, is a 3-year pact containing a Wheat Trade Convention (WTC) and a Food Aid Convention (FAC). The WTC provides for member cooperation or consultation on supply and prices by establishing an Advisory Subcommittee on Market Conditions. It does not, however, contain any price provisions such as the minimums and maximums under the IGA. The new FAC is similar to the IGA. The IWA is effective July 1, 1971, subject to ratification by member governments.

Rice

Of the countries surveyed, six employed quotas as the main device for regulating rice imports, while nine (the United States, the EC, the United Kingdom, Denmark, Finland, Switzerland, Austria, Canada, and Australia) employed only

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[5] For a fuller discussion of the IGA. see (*75*) and (*147*).
[6] For a discussion on International Commodity Arrangements and Policies see (*20*).

a tariff or import tax on rice imports (table 7). Only three countries—Ireland, Sweden, and New Zealand—had no barriers against rice imports.

All specific tariffs on rice were converted to ad valorem equivalents under specified c.i.f. price assumptions and arrayed in table 9. The tariff rate equivalents ranged from a high of 65 percent in the EC to a low of 7 percent in Canada. Preferential tariffs for rice by country of origin are used in the EC, the United Kingdom, Portugal, and Australia, while preferential quotas by country of origin are employed by the EC and Greece.

Coarse Grains

Quantitative regulation of barley, corn, and grain sorghums is almost as widespread as that of wheat. Import quotas are used not just by the traditional exporting countries, but also by importing nations desiring to protect domestic producers from world competition. For example, in 1969, Spain reimposed severe quotas—embargoes—on imports of corn and grain sorghums after several quota-free years.

In 1968–69, rates of ad valorem duty or tariff equivalents on feed grains ranged from a high of about 123 percent on corn and barley at Swedish ports to a low of about 2 percent in the United Kingdom (variable levy) (table 9). However, this low tariff equivalent of the U.K. levy is deceptive because it must be read in conjunction with the price-preference effects of the U.K. deficiency payment system. The variable levy on corn for the EC in 1969–70 was equivalent to a 57-percent tariff (annual average).

Japan employs a complex tariff quota on corn and sorghums for nonfeed industrial use, and generalizing about Japanese feed grain import barriers is thus more difficult. Import barriers of different heights according to different end use of a standard commodity are, in a way, analogous to the different barrier heights maintained according to country origin of a commodity. State trading organizations of Austria, Portugal, and South Africa may purchase coarse grains with clear preference for certain favored countries of origin.

GENERAL TRADE POLICIES: JAPAN

Thus far, discussion has been focused on policies in effect for specific grains. But economic policies of a more general nature can also have a substantial effect on commodity trade. An example was included in a study concerned with the effects of alternative food strategies on the future development of food consumption patterns in Japan (*11*). The study found that Japanese food consumption per person in the 1960's was lower than in any comparable developed country, even though Japan has experienced very rapid growth in consumer income since the 1950's. This lower consumption was due primarily to Japan's limited agricultural production and to quotas on imports of processed foods. Consumption of livestock products was especially low, because Japan's livestock sector was developing from a low level of resource use.

To indicate the possible influence of food strategy on consumption patterns in Japan over the next 15 years, the study set forth three of many alternative strategies that Japan could adopt: (1) a Western food strategy, (2) a Pacific food strategy, and (3) an Eastern food strategy. Each strategy was discussed in terms of domestic and import planning targets for food and food raw materials, such as livestock feed grains. Under the Eastern food strategy, present consumption patterns and import policies would hold imports of wheat and coarse grains to only moderate increases. The Western food strategy, at the other extreme, would seek a Western diet and imply a very high level of agricultural imports. For example, imports of feed grains in the 1980's might range from 12.4 million tons under the Eastern food strategy to 40.8 million under the Western food strategy. Because massive food and feed imports entail special risks, it is not surprising that Japan has already initiated a policy to reduce its dependency on a few major suppliers by encouraging countries in Southeast Asia and East Africa to also become important suppliers of feed grains. The extent of Japan's encouragement to them is a crucial food-strategy issue for the future.

Table 7.--Trade barriers to grain imports in developed countries

Commodity	Country: United States	Country: European Community	Country: Japan
Wheat	TARIFF: GATT : 1930 Act For food: $7.72 m.t. : $15.43 m.t. Not food: 5% : 10% $7.72 per m.t. is 15% when wheat is $51 per metric ton. GLOBAL QUOTA (tonnage): Sec. 22, 800,000 bu. (21,800 metric tons)	VARIABLE LEVY: In 1969-70, the average levy on wheat was about $58 per metric ton, equivalent to an 89% tariff for a cargo priced at $65 per ton c.i.f. EC ports, a representative price that year.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): '69 quota 4.3 million m.t. Markup is storage + handling + "skimming" tariff. Example '69 skimming: About $18 m.t., 24% equivalent for wheat $75 ton c.i.f. Japan.
Rice	TARIFF: Rough : $27.56 per metric ton Brown : $33.07 per metric ton Milled: $55.12 per metric ton $55.12 is 31% when milled rice is $176 per metric ton.	VARIABLE LEVY: Averaged $142 m.t. milled long-grain 1969-70, a 65% equivalent, since EC c.i.f. price averaged about $220 m.t. 1969-70. PREFERENTIAL LEVY QUOTA for African Associates, other overseas: 45% levy discount on 105% prior trade volume.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): '69 quota 50,000 m.t. Varies widely year to year. Example of markup in '68: About $105 m.t. on milled short grain at $200 ton c.i.f. Japan, about 53% equivalent.
Barley	TARIFF: GATT : 1930 Act : $3.44 m.t. : $9.19 m.t. $3.44 per m.t. is 6% when barley is $55 per metric ton.	VARIABLE LEVY: In 1969-70, the average levy on barley was about $50 per metric ton, equivalent to 102% tariff for a cargo priced at $49 per ton c.i.f. EC ports, a representative price that year.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Markups for feed barley $11.00 per m.t. in '68, about 18% when barley $60 m.t. c.i.f. Total quota all barley about 630,000 m.t. 1968.
Corn	TARIFF: GATT : 1930 Act : $3.95 m.t. : $9.83 m.t. Preferences for Cuba are suspended. $3.95 per m.t. is 8% when corn is $47 per metric ton.	VARIABLE LEVY: In 1969-70, the average levy on corn was about $36 per metric ton, equivalent to a 57% tariff for a cargo priced at $63 per ton c.i.f. EC ports, a representative price that year.	Feed corn: No tariff or quota TARIFF QUOTA: Industrial corn: Type : Quota :In quota: Over quota For :0.4 mil.: : Starch: m.t. : Free : $24 m.t. Other :0.5 mil.: 10% : $24 m.t. $24 m.ton 40% equiv. at $60 c.i.f.
Grain sorghums	TARIFF: GATT : 1930 Act : $8.82 m.t. : $44.09 m.t. $8.82 per m.t. is 20% when grain sorghum is $44 per metric ton.	VARIABLE LEVY: In 1969-70, the average levy on grain sorghums was about $37 per metric ton, equivalent to a 65% tariff for a cargo priced at $57 per ton c.i.f. EC ports, a representative price that year.	Feed sorghum: No tariff or quota TARIFF QUOTA: Industrial sorghum Within quota: Free Over quota: 5% 1968 free quota about 4,000 metric tons.
Sources	Tariff Schedules of the United States (annotated), 1969; Agricultural Policies in 1966, OECD; U.S. Import Duties on Agricultural Products, 1968, Agriculture Handbook 368, FAS, USDA, 1970.	Berntson B., O.H. Goolsby and C.O. Nohre, The European Community's Common Agricultural Policy, FAER-55, ERS, USDA; Agrarmärkte, Preise, Nos. 6 and 7, 1970, Directorate General for Agriculture, EC; Council Regulation 540/70, Amtsblatt No.L68, March 25, 1970.	U.S. Agricultural Attache Reports, Tokyo, Numbers ACR-350 (June 1964), AGR-159 (June 1966), AGR-84 (Feb. 1967), AGR-55 (Oct. 1967), JP8121, JP8153, JP8190, JP8191, JP9030; World Wheat Statistics, 1969, IWC; Mitsui's Grain reports, various.

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Table 7.--Trade barriers to grain imports in developed countries (continued)

Commodity	Country: United Kingdom	Country: Ireland	Country: Denmark
Wheat	PRICE PREFERENCE TO DOMESTIC WHEAT undercuts price similar import wheat. Assured by farm direct payments. Mills pledge use UK wheat 1,500,000 m.t. Intermittent VARIABLE LEVY, example $1.80 m.t., 3% equiv.; apply if need force up price foreign wheat.	IMPORT LICENSES required, issued to assure domestic wheat about 75% of food milling. De facto GLOBAL TONNAGE QUOTA, 100,000 m.t. for food, 1969. QUOTA for feed wheat or sorghums (depending on price) was 170,000 m.t. TARIFF: $7 m.t. for food	MILLING MIXTURE REGULATION: Normally, 100% domestic wheat, a de facto import embargo enforced by: IMPORT LICENSE REQUIREMENT. VARIABLE LEVY: When feed wheat allowed, about $20 m.t. in 1969, 29% equiv. when wheat $68 m.t. c.i.f.
Rice	TARIFF: milled and brown — Commonwealth: Free; Full & EFTA: $11.22 per metric ton (8% equiv.). Other — Commonwealth: Free; Full & EFTA: Free. 1972 rate: $7.08 per metric ton	Import licenses freely available (1968-69), but issued selectively in 1966.	TARIFF: Rough: Free; Brown: Free; Milled: 5%
Barley	TARIFF: Commonwealth: Free; Full & EFTA: 10%. VARIABLE LEVY: Often triggered, removed. Example, $3.60 m.t., 7% when barley c.i.f. $52 m.t., 1969. PRICE PREFERENCE TO DOMESTIC BARLEY due to tariff, levy, direct payments.	IMPORT LICENSES required, granted by Grain Board. De facto GLOBAL TONNAGE QUOTA, about 25,000 metric tons in 1969.	IMPORT LICENSE REQUIREMENT permits official IMPORT EMBARGO during all 1969, but actual imports, de facto QUOTA, 15,700 m.t. 1969. VARIABLE LEVY: If imports allowed, about $26 m.t. 1969, 54% equiv. if barley $48 m.t. c.i.f.
Corn	TARIFF: Flat white only: 10%, Full & EFTA; VARIABLE LEVY: Any corn: Often triggered, removed, as $1.20 m.t., 2% when corn $54 m.t. c.i.f. PRICE PREFERENCE TO DOMESTIC BARLEY, due to levy and farm direct payments, constitutes barrier to corn also.	IMPORT LICENSES required, granted by Grain Board. De facto GLOBAL TONNAGE QUOTA, about 125,000 metric tons in 1969. IMPORT TAX: $2.40 m.t. 1968, 5% equivalent when corn is $50 m.t. c.i.f.	IMPORT LICENSE REQUIREMENT employed to embargo corn part 1970. VARIABLE LEVY: But, LEVY-FREE QUOTA, up to 100,000 m.t. corn in 1969 if matching amount Danish grain exported. Over-quota levy $10 m.t. 1969, 17% equiv. if corn $58 m.t. c.i.f.
Grain sorghums	TARIFF: Commonwealth: Free; Full & EFTA: 10%. VARIABLE LEVY: Rarely triggered. PRICE PREFERENCE TO DOMESTIC BARLEY, due to tariff and farm direct payments, which allow barley prices to undercut grain sorghum prices.	IMPORT LICENSES required, granted by Grain Board. De facto GLOBAL TONNAGE QUOTA. Quota normally for grain sorghums or feed wheat; which bought depends on prices. But 1968-69, sorghums only. About 170,000 metric tons in 1969.	IMPORT LICENSE REQUIREMENT permits IMPORT EMBARGO during all 1969. LEVY-FREE QUOTA combined with corn in 1968, but no such quota for sorghums in 1969. Over-quota VARIABLE LEVY: $15 m.t. in 1968, 29% equivalent if sorghums $52 m.t. c.i.f.
Sources	Schertz, Lyle, Cereal Policies in the U.K., 1870-1967, FAR-130, FAS, USDA; Report on the Agricultural Trade Negotiations of the Kennedy Round, FAS-M-193, USDA; U.S. Agricultural Attache Reports, London, Numbers UK8371, UK9085, UK9119, UK9134, UK9073, and letters.	U.S. Agricultural Attache Reports, Dublin, Numbers AGR-91 (May 23, 1967) AGR-72 (Dec. 28, 1967), AGR-73 (Dec. 28, 1967), AGR-97 (Feb. 7, 1968), IL9026, and letters.	U.S. Agricultural Attache Reports, Copenhagen, Numbers AGR-45 (Jan. 9, 1968), DN8114, DN8122, DN9004, DN9007, DN9028, DN0022, and letter; International Customs Journal, Denmark (1965), as updated in FAS, USDA.

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Table 7.--Trade barriers to grain imports in developed countries (continued)

Commodity	Country		
	Norway	Sweden	Finland
Wheat	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Total quota: about 316,000 m.t. 1968, markup about: $26 m.t. '68, 39% equiv. when wheat $67 ton c.i.f. Norway. Nordic Union '69 leads to: PREFERENTIAL QUOTAS TO SWEDEN, DENMARK.	VARIABLE LEVY: Example of 1969 levy about $66 per metric ton, 86% equivalent if wheat $77 m.t. c.i.f. Swedish ports.	MILLING MIXTURE REGULATION, about 90% domestic for 1969, plus IMPORT LICENSING: Together a de facto IMPORT QUOTA system, in 1969 about 19,100 m.t. Bilateral agreement with USSR, PREFERENTIAL QUOTA for Soviet wheat, about 15,000 m.t. 1970.
Rice	GLOBAL VALUE QUOTA: 1.3 million kroner ($182,000) administered by Ministry of Commerce. Equivalent to almost 1,100 m.t. if rice priced at $170 ton c.i.f. Norway.	Free	IMPORT TAX, in 1969: Brown: $50.00 per metric ton Milled: $107.00 per metric ton
Barley	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Total quota about 94,000 m.t. feed barley, 1967. Markup about $29 m.t. 1967, 47% equivalent when barley $61 ton c.i.f. Norway. Malting barley not state traded.	VARIABLE LEVY: Example of 1969 levy about $70 per metric ton, 123% equivalent if barley $57 m.t. c.i.f. Swedish ports.	IMPORT TAX: $59.52 per metric ton in 1969. IMPORT LICENSE REQUIREMENT: De facto IMPORT EMBARGO 1969.
Corn	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Total quota about 89,000 m.t. 1968. Markup about $39 m.t. 1968, 67% equivalent when corn $58 ton c.i.f. Norwegian ports. Quotas vary widely year to year.	VARIABLE LEVY: Example of 1969 levy about $75 per metric ton, 123% equivalent if corn $61 m.t. c.i.f. Swedish ports.	VARIABLE LEVY: About $35.70 m.t. 1969, 55% equiv. if corn $65 m.t. c.i.f. Finland. No levy if for certain industrial processing. De facto IMPORT QUOTA by licensing, about 13,900 m.t. 1969.
Grain sorghums	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Total quota about 150,000 m.t. 1968. Markup about $30 m.t. 1968, 51% equivalent when grain sorghums $59 ton c.i.f. Norwegian ports. Quotas vary widely year to year.	VARIABLE LEVY: Example of 1969 levy about $68 per metric ton, 121% equivalent if sorghums $56 m.t. c.i.f. Swedish ports.	IMPORT TAX: $23.80 per metric ton in 1969.
Sources	U.S. Agricultural Attache Reports on Norway from Copenhagen, Denmark, Numbers AGR-3 (Aug. 11, 1967), NR8016, NR9004, NR9013, and letter.	U.S. Agricultural Attache Reports, Stockholm, Numbers AGR-44 (Feb. 10, 1967), AGR-4 (Aug. 15, 1967), SW8044, SW9006, and letter.	National Grain Policies, 1969, FAO; Schertz, L. and K. Neeley, Barriers to International Grain Trade, FAR-126, FAS, USDA; U.S. Agricultural Attache Reports, AGR-6 (Sept. 15, 1967); Letter from U.S. Embassy, Helsinki.

Continued--

Table 7.--Trade barriers to grain imports in developed countries (continued)

Commodity	Country: Switzerland	Country: Austria	Country: Portugal
Wheat	DOMESTIC PREFERENTIAL QUOTA: Gov't. sets amount Swiss wheat for milling, 311,000 m.t. '68. Rest of mill needs from imports, 333,000 m.t. 1968. TARIFF PLUS SURCHARGES: $16.50 m.t. 1968, 21% if wheat $80 c.i.f. Feed wheat to feedstuffs quota.	STATE TRADING (TONNAGE QUOTAS MAY SPECIFY COUNTRY ORIGIN; VARIABLE SKIMMING LEVY ON ENTRY): Preference to Canada. 1968 quota 16,000 m.t. A 1968 skimming rate on Canadian durum ($88 m.t. c.i.f. border) was $14, 16% equivalent.	STATE TRADING (TONNAGE QUOTA PLUS PRICE MARKUPS ON RESALE): Total import target for year by Nat'l Federation Wheat Producers (NFWP) is an annual quota, about 200,000 m.t. 1969. Markup about $56 m.t., 75% equiv. $75 ton c.i.f.
Rice	TARIFF + SURCHARGES (both specific): $42.85 per metric ton 1968, 16% equivalent when rice $271 m.t. c.i.f.	IMPORT TAX: 6.25%, on broken rice only.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Total NFWP import target is an annual quota, about 19,000 m.t. (milled basis) 1968. TARIFF: $34.87 m.t. if not from Portuguese Overseas Areas.
Barley	GLOBAL TONNAGE QUOTA FOR TOTAL FEEDSTUFFS: 1.3 million metric tons 1968. Import licenses required. TARIFF + SURCHARGES (both specific): Total $31.50 per m.t. 1968, 59% equiv. when barley $53.50 m.t. c.i.f.	STATE TRADING (TONNAGE QUOTAS MAY SPECIFY COUNTRY ORIGIN; VARIABLE SKIMMING LEVY ON ENTRY): 1968 quota 130,000 m.t. Preference to USSR by specification or other selective device. 1968 skimming Soviet barley $63 ton border was $13, 21%.	STATE TRADING (TONNAGE QUOTAS PLUS POSSIBLE PRICE MARKUPS ON RESALE): Total NFWP import target is an annual quota, negligible in 1968 except for malting barley. TARIFF: $34.78 m.t.
Corn	GLOBAL TONNAGE QUOTA FOR TOTAL FEEDSTUFFS: 1.3 million metric tons 1968. Import license required. TARIFF + SURCHARGES (both specific): Total $22 per m.t. 1968, 37% equiv. when corn $59 m.t. c.i.f.	STATE TRADING (TONNAGE QUOTAS NORMALLY GLOBAL; VARIABLE SKIMMING LEVY ON ENTRY): Grain Board 1968 skimming was about $27 per m.t. on Yugoslav corn at $50 per ton c.i.f. Austrian border, 53% tariff equivalent. 1968 quota 127,000 tons.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): NFWP import target 200,000 m.t. '69 Markup $25 m.t., about 38% equivalent when corn is $65 m.t. c.i.f. TARIFF: $20.87 m.t. PREFERENTIAL QUOTA Angola, Mozambique
Grain sorghums	GLOBAL TONNAGE QUOTA FOR TOTAL FEEDSTUFFS: 1.3 million metric tons 1968. Import license required. TARIFF + SURCHARGES (both specific): Total $18 per m.t. 1968, 28% equiv. when sorghums $65 m.t. c.i.f.	STATE TRADING (TONNAGE QUOTA NORMALLY GLOBAL; VARIABLE SKIMMING LEVY ON ENTRY): Skimming in 1968 about $7 per m.t. for sorghum at $65 per ton c.i.f. Austrian border, 11% equivalent. 1968 quota about 30,000 m.t.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Total NFWP import target is an annual quota, about 20,000 m.t. 1968. Markup $25 m.t., about 45% equivalent when sorghum $55 ton c.i.f.
Sources	U.S. Agricultural Attache Reports, Bern, Numbers AGR-16 (Oct. 4, 1966), SZ8030, SZ8037, SZ8060, SZ8063, and letters; U.S. Dept. Commerce Overseas Business Reports "Foreign Trade Regulations of Switzerland", June 1969.	U.S. Agricultural Attache Reports, Vienna, Numbers AT8054, AT8070, AT8081, AT8087, AT9003, AT9015, and letter.	U.S. Agricultural Attache Reports, Lisbon, Numbers PT8049, PT8085, PT8091, PT8117, and Salisbury, Rhodesia on Mozambique, Number MZ8089; Letter from U.S. Agricultural Attache, Lisbon.

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Table 7.--Trade barriers to grain imports in developed countries (continued)

Commodity	Country: Spain	Greece	South Africa
Wheat	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): 1968 quota negligible, in reality an IMPORT EMBARGO. TARIFF: 1%--COMPENSATORY IMPORT TAX: 8%--For small imports made, price markup added to above.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Quota about 11,000 m.t. 1968, but at least 103,000 m.t. 1969. Varies widely. 1968 markup about $30 m.t., 46% equiv. when wheat $65 m.t. c.i.f. Greek ports.	STATE TRADING WITH TONNAGE QUOTAS by Wheat Control Board. IMPORT EMBARGO 1968-69 TARIFF About $8 per m.t. 1964, 10% equivalent if wheat $80 m.t. c.i.f. South African ports.
Rice	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): IMPORT EMBARGO 1968 because of zero quota. TARIFF : COMP. IMPORT TAX Rough Free : 7% Brown Free : 8% Milled 4½% : 8%	GLOBAL TONNAGE QUOTA (milled, broken): About 3,900 m.t., 1968. PRIOR DEPOSIT - 119% PREFERENTIAL QUOTA to EC $75,468 (1969), about 444 m.t. if rice $170 c.i.f.	De facto QUOTA, about 79,000 m.t. in 1968, by IMPORT LICENSE REQUIREMENT. TARIFF: $77.17 m.t.
Barley	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Quotas and gov't. purchase suspended 1964 in favor of markup only, that is, VARIABLE LEVY: Example $15 in '68 + TARIFF 1% + IMPORT TAX 7%, total $20 m.t. 36% if c.i.f. $56.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Zero quota in 1968. Quota 1969 at least 18,000 m.t., markup about $21 m.t., 39% equivalent if barley $54 m.t. c.i.f. Greece.	STATE TRADING WITH TONNAGE QUOTAS by Wheat Control Board and S.A. Dept. of Agriculture. Imports are brewing barley only. 1968 quota about 8,600 m.t. PREFERENTIAL QUOTA TO AUSTRALIA.
Corn	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Quotas and gov't. purchase suspended 1964 in favor variable tariff plus 1% and 8% taxes, but quotas reimposed 1969 as TEMPORARY EMBARGO: Example 1968 total, $19 m.t. 35% if c.i.f. $55.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Quota 226,000 m.t. 1968. Markup about $32 per m.t. in 1968, 58% equivalent when corn $55 m.t. c.i.f. Greek ports.	STATE TRADING WITH TONNAGE QUOTAS, USUALLY AN IMPORT EMBARGO: Corn normally not imported, but if so under quota of Maize Control Board and S.A. Dept. of Agriculture. Preference to neighboring countries.
Grain sorghums	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Quotas and gov't. purchase suspended 1964 in favor variable tariff plus 1% and 8% taxes, but quotas reimposed 1969 as TEMPORARY EMBARGO: Example 1968 total, $17 m.t. 31% if c.i.f. $54.	STATE TRADING (TONNAGE QUOTAS PLUS PRICE MARKUPS ON RESALE): Zero quota in 1968.	STATE TRADING WITH TONNAGE QUOTAS, USUALLY AN IMPORT EMBARGO: Sorghums normally not imported but if so under quota of Maize Control Board and S.A. Dept. of Agriculture. Preference to neighboring countries.
Sources	Schertz, L. and K. Neeley, Barriers to International Grain Trade in Selected Foreign Countries, FAR-126, FAS, USDA; U.S. Agricultural Attache Reports, Madrid, AGR-71 (May 9, 1967), SP8067, SP8090, SP9007, SP9030, and letter.	U.S. Agricultural Attache Reports, Athens, Numbers AGR-57 (Feb. 24, 1968), GR8113, GR9010, GR9033, and letter; Foreign Trade Regulations, National Bank of Greece, Athens, 1965.	Schertz, L. and K. Neeley, Barriers to International Grain Trade in Selected Foreign Countries, FAR-126, FAS, USDA; U.S. Agricultural Attache Reports, Pretoria, AGR-61 (Jan. 25, 1967), AGR-5 (July 24, 1967), SA8053, SA9016, SA9052, and letter.

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Table 7.--Trade barriers to grain imports in developed countries (continued)

Commodity	Country: Canada	Australia	New Zealand
Wheat	IMPORT EMBARGO BY: IMPORT LICENSES Licenses controlled by Wheat Board and seldom granted for domestic use. TARIFF: 12¢ per bushel or $4.36 per metric ton, (m.f.n.) Free, British preference.	IMPORT EMBARGO BY: IMPORT LICENSE REQUIREMENT based on plant quarantine regulation. Licenses seldom granted. When granted, tariffs waived through by-law provisions.	STATE TRADING--FOREIGN EXCHANGE QUOTAS--IMPORT LICENSE REQUIREMENT--PREFERENTIAL QUOTA TO AUSTRALIA Total quota 1968 about 48,000 metric tons. Duty free.
Rice	TARIFF: - milled rice: 50¢ per 100 lbs., or $11 per metric ton, 7% if milled rice $160 per metric ton c.i.f. Canadian ports, (m.f.n.)	TARIFF: New Zealand: 5%; Com'wlth.: $23.21 m.t. plus 5%; General: $30.87 m.t. plus 5%	Duty free. Exempt from import license requirement beginning in 1968, but quotas and licenses were required previously.
Barley	IMPORT EMBARGO BY: IMPORT LICENSES Licenses controlled by Wheat Board and seldom granted for imported barley for domestic use. TARIFF: 7½¢ per bushel, or $3.44 per metric ton, (m.f.n.) Free, British preference.	IMPORT EMBARGO BY: IMPORT LICENSE REQUIREMENT based on plant quarantine regulation. Licenses seldom granted. When granted, tariffs waived through by-law provisions.	FOREIGN EXCHANGE QUOTAS Value quota allocated to barley usually zero. Normally, an IMPORT EMBARGO BY IMPORT LICENSE and decision of Dept. of Agriculture. *If imports allowed, tariff would be waived.*
Corn	TARIFF: 8¢ per bushel, or $3.15 m.t. (m.f.n.); Free, British preference. VARIABLE IMPORT SURTAX (1968 only) added to tariff as difference between $1.05 per bushel and c.i.f. price Canadian border if this price below $1.05.	IMPORT EMBARGO BY: IMPORT LICENSE REQUIREMENT based on plant quarantine regulation. Licenses seldom granted. When granted, tariffs waived through by-law provisions.	FOREIGN EXCHANGE QUOTA almost an embargo. De facto QUOTA BY IMPORT LICENSE: 1,900 m.t. 1968. TARIFF: $4.94 m.t. (m.f.n.) 8% equiv. if corn $60 ton c.i.f. For Australia and Commonwealth, $2.47 m.t.
Grain sorghums	TARIFF: 8¢ per bushel, or $3.15 per metric ton, 7% equivalent if sorghums $47 per metric ton c.i.f. Canadian border.	IMPORT EMBARGO BY: IMPORT LICENSE REQUIREMENT based on plant quarantine regulation. Licenses seldom granted. When granted, tariffs waived through by-law provisions.	FOREIGN EXCHANGE QUOTA almost an embargo. De facto QUOTA BY IMPORT LICENSE: 590 m.t. 1968-69 fiscal year.
Sources	Barriers to Int'l. Grain Trade, FAR-126, FAS, USDA; Report on Agric. Trade Negotiations of Kennedy Round, FAS-M-193; Journal of Commerce, Oct. 11, 31 and Nov. 8, 1968; Canadian and U.S. Tariffs, Ottawa, 1969; Letter from U.S. Agricultural Attache, Ottawa.	National Grain Policies, 1969, FAO; Letter from U.S. Agricultural Attache, Canberra; Australian Customs Tariff (revised to 1968); "Customs By-Laws", Dept. of Customs and Excise, Canberra, 1969.	Agricultural Policies in the Far East and Oceania, FAER-37, ERS, USDA; New Zealand Tariff Amendment, Chapter 10, 1969; U.S. Agricultural Attache Reports, Wellington, AGR-4 (Aug. 9, '66), NZ9025, and letter.

TABLE 8.—IMPORT QUOTAS: TOTAL AND PER CAPITA FOR WHEAT, RICE, CORN, AND BARLEY IN DEVELOPED COUNTRIES, 1968 OR 1969

Country	Wheat		Rice		Corn		Barley	
	Total (million tons)	Per capita (kilograms)	Total (million tons)	Per capita (kilograms)	Total (million tons)	Per capita (kilograms)	Total (million tons)	Per capita (kilograms)
Australia	(1)	(1)	(2)	(2)	(1)	(1)	(1)	(1)
Austria	16,000	2.2	(2)	(2)	127,000	17.3	130,000	17.7
Canada	(1)	(1)	(2)	(2)	(2)	(2)	(1)	(1)
Denmark	(1)	(1)	(2)	(2)	(2)	(2)	15,700	3.2
Finland	19,100	4.1	(2)	(2)	13,900	3.0	(1)	(1)
Greece	103,000	11.7	3,900	.4	226,000	25.7	18,000	2.0
Ireland	100,000	34.2	(2)	(2)	125,000	43.0	25,000	8.6
Japan	4,300,000	42.0	50,000	.5	(2)	(2)	630,000	6.2
New Zealand	48,000	17.5	(2)	(2)	1,900	.7	(1)	(1)
Norway	316,000	82.7	1,100	.2	89,000	23.3	[3] 94,000	[3] 24.87
Portugal	200,000	20.9	19,000	2.0	200,000	20.9	(1)	(1)
South Africa	(1)	(1)	79,000	4.1	(1)	(1)	8,600	.4
Spain	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)
Switzerland	(2)	(2)	(2)	(2)	[4] 180,000	[4] 29.3	(2)	(2)
United States	21,800	.1	(2)	(2)	(2)	(2)	(2)	(2)

1 Negligible, de facto embargo.
2 Not applicable.
3 1967.
4 De facto quota. Is a part of total feedstuffs quota of 1,300,000 metric tons, which is not allocated by commodity.

Source: Tables 7 and 12.

TABLE 9.—TARIFF RATES: APPROXIMATE AD VALOREM EQUIVALENTS FOR SPECIFIC DUTIES ON GRAIN IMPORTS 1968 OR 1969 [1]

[In percent]

Country and type of rate	Wheat	Rice, milled	Barley	Corn	Grain sorghums
United States (GATT)	15	31	6	8	20
European Community	89	65	102	57	65
Japan	[2] 24	[2] 53	[2] 18	(3)	(4)
United Kingdom (Full)	[5] 3	8	7	2	(6)
Ireland	[7] 11	(8)	(8)	5	(8)
Denmark	29	(6)	54	17	29
Norway	[2] 39	(8)	[2] 47	[2] 67	[2] 51
Sweden	86	(8)	123	123	121
Finland	(8)	61	104	55	42
Switzerland	21	16	59	37	28
Austria	16	(6)	[2] 21	[2] 53	[2] 11
Portugal	[2] 75	[2] 21	[2] 63	[2] 38	[2] 45
Spain	(9)	(9)	36	35	31
Greece	[2] 46	(8)	[2] 39	[2] 58	(9)
South Africa	(9)	35	(8)	(9)	(9)
Canada (M.F.N.)	[10] 8	[10] 7	[10] 6	[10] 6	[10] 7
Australia (general)	(8)	14 & 10 ad val	(8)	(8)	(8)
New Zealand	(8)	(8)	(8)	8	(8)

1 This table is not a complete listing of trade barriers for grains. It concerns only specific duties, that is, those stated in a currency unit for a certain commodity weight. Estimated rates were calculated as shown in table 7.
2 State trading price markup on resale by the Government or semi-Government agency.
3 Free of duty except that corn for industrial purposes in excess of the tariff quota amount may be subject to a specific duty of about 40 percent equivalent.
4 Free of duty except that sorghums for industrial purposes in excess of the tariff quota amount may be subject to a 5 percent tariff.
5 Applied, but not too often.
6 Ad valorem.
7 Wheat for food only; assumed c.i.f. $65.
8 Free of duty.
9 Embargo. The term "embargo" is listed where there is state trading, with price markups on resale, but where the complete lack of recent imports by the state trading agency gives no clue as to what the size of a price markup would be.
10 Assumed c.i.f. prices per metric ton at country border or port, where not shown on table 7: Canada: wheat, $58; rice, $160; barley, $54; corn, $50; grain sorghums, $47; Finland: rice, $175; barley, $57; grain sorghums, $56; Portugal: rice, $170; barley, $55; South Africa: rice, $220; Australia: rice, $220.

Source: table 7 and 12.

Mr. VANIK. In your statement you advocate wider markets for export of feed grains. Has it occurred to you that this might lead to the offshore production of beef for the American market; that we might in effect be using the export of feed grains to build a market or an industry abroad to produce beef for the American market with feed grains that you export, and that would provide these feed lots in foreign countries with the opportunity to have the advantages of the foreign tax credit and other things that would help create a situation in which they would be able to develop a greater profitability than the industry operating in the United States? Is that what you want?

Mr. GASKILL. I think we have certain barriers in our system. I should not use the word "barriers"—but in relation to our part of the world and the center part of the United States, we have the technical know-how, the weather, that we will probably continue to produce——

Mr. VANIK. Do you think we can maintain our preeminence in feed grain production nothwithstanding anything else in the world, that we have these technical advantages that will forever be with us? You don't see down the road a capacity in the Soviet Union or in Europe or other parts of Asia, with our technology which is being transported at a tremendous rate, you don't see this technology developing productivity abroad that would be a realistic competitor to your industry?

Mr. GASKILL. Not immediately. I consider the weather the biggest factor. Only in three parts of the world—the Ukraine, part of South America, part of the United States——

Mr. VANIK. But you will admit the Ukraine is an undeveloped area?

Mr. GASKILL. That is why I say "not immediately."

Mr. VANIK. They can multiply productivity by eight or ten times.

Let me ask you this: What markets do you expect to open up? Do you want to get into the EEC, the Common Market? What do you think we should import from the Common Market? They are going to insist on reciprocity. So what are we going to have to buy from Common Market countries to compensate for your sales of feed grains?

Mr. GASKILL. I am not that familiar.

Mr. VANIK. Do you think we should buy automobiles and reduce the number we make in Detroit? You know, it all works out in balance. The Common Market people come down and they are hard marketers, they are going to say "dollar for dollar" or "mark for mark" or "pound for pound."

So for every pound of feed grain we export into EEC countries, they will want a return to this country in a comparable pound of machinery, which requires more labor to develop than the pound of feed grain.

Mr. JOHNSON. Could I respond with two observations?

First, the United States currently has a trade deficit with the European Community and a larger balance-of-payments deficit. The commitment the United States has from the Community is overall reciprocity. So I don't see necessarily the question in the first instance is trading manufacturing concessions for agricultural concession.

But over and above that, I think it is misleading to suggest that manufacturing exports necessarily have a higher job content than agricultural exports. We attempted to present information that showed where or how you divided up the export dollars, and only a quarter goes to farming and a large part goes to industry which is centered in your State.

Mr. VANIK. As you widen the market for agricultural products do I understand that you are opposed to the import quotas on beef? Do you feel that we no longer need that? Does your organization oppose the import quota on beef?

Mr. JOHNSON. It is difficult to speak for the organization. They have not taken a policy position.

Mr. VANIK. Will you kindly have a policy position placed in the record at this point?

Mr. JOHNSON. The council itself is not in a position to make a policy statement on something other than feed grains. We are a nonprofit organization basically geared to sponsoring market development, market promotion of feed grains.

I would be willing to volunteer my personal opinions, however.

Mr. VANIK. The feed grains go to domestic cattle, too, and they are affected by the import of beef, so how can you assume no responsibility to address yourself to something that deals with agriculture, the importation of beef?

Mr. JOHNSON. My point is that the council as one entity cannot have a position, but each individual member certainly does, and we do discuss it.

Mr. VANIK. How about milk; how do you feel about the dairy quotas? Do you support or oppose those? Feed grains are used to feed our dairy herds.

Mr. JOHNSON. We have the same problem as an organization, we cannot make a statement there.

Mr. VANIK. If you develop a position on these two import quota restrictions which are trade barriers, I would like to have them in the record before the record closes.

Thank you very much.

Mr. DUNCAN. I have no questions, but I would like to compliment you on a very fine statement.

We thank you very much.

Mr. CONABLE. There is considerable interest in increasing the efficiency of American agriculture through volume and therefore reducing per-unit cost. Farmers have heavy overhead. So there is a decided advantage, is ther not, in the efficiency of your production if you can go the volume route, and if we are at a turning point and can turn away from reduction of supply. Would you care to comment on that? If we can stimulate the export of agricultural goods, doesn't this make the whole agricultural industry more efficient, and therefore isn't there an advantage to the American consumer as well as the——

Mr. BOOK. Our consumption is between 4 and 4½ billion bushels a year. Our carryover is around 1 billion bushels. Our capacity to produce is above 6 million. The difference between the 4½ that we now have and the 6 that we could, is either paid for by the taxpayers in set-aside payments to the farmer for not producing, or is paid for to be placed in storage for years ad infinitum.

Therefore, you are correct, if we can produce and sell we are more effective and more efficient.

Mr. CONABLE. Therefore, assuming there is some degree of balance in the supply going abroad and some stability, probably it means cheaper prices for Americans as well?

Mr. GASKILL. That is correct.

Mr. GIBBONS. Thank you, gentlemen, for your testimony. We appreciate your coming here today. I hope your statements will help produce some legislation.

We are going to have to recess for a few moments at this time.

[A recess was taken.]

Mr. GIBBONS. The statement of Mr. Robert Hampton will appear in the record as if delivered.

STATEMENT OF ROBERT N. HAMPTON, DIRECTOR, MARKETING AND INTERNATIONAL TRADE, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. HAMPTON. I am Robert N. Hampton, director of marketing and international trade of the National Council of Farmer Cooperatives. The national council is a nationwide federation of farmer-owned businesses engaged in the marketing of agricultural commodities or the purchasing of farm production supplies, and of 32 State cooperative councils. The cooperatives making up the council are owned and controlled by farmers as their off-farm business operations.

We appreciate the action of this committee in conducting prompt hearings on H.R. 6767, the proposed Trade Reform Act of 1973. This legislation is central to our urgent national need for expanded world trade, and especially for fairer access for U.S. goods in foreign markets.

The national council supports this bill to give the President negotiating authority to reduce trade barriers and, if necessary, to impose appropriate restraints against foreign barriers which are "unfair" or which create undue disruptions, such as payments imbalance or other economic maladjustments.

We believe it is important this legislation be acted on promptly in order to enhance our credibility in dealing with our major trading partners in the GATT multilateral negotiating round now being planned.

In effect, we are already involved in a series of important bilateral trade visits and talks, and our negotiators' ability to deal effectively with issues under discussion depends substantially on an indication of the Congress' will to move toward more equitable international "trading rules" and more open world markets.

We believe the President requires a broad authority in order to negotiate effectively with foreign nations. Both the language of the Trade Reform Act and the statements of administration spokesmen have made it clear that we plan to gain more open world market access not only through reciprocal reduction of barriers but also through stronger authority to deal with practices which are unfair or illegal under the General Agreement on Tariffs and Trade.

Titles II, III, and IV represent a substantial response to major concerns of labor and other groups who fear unfair competition from abroad, although we believe that adjustment assistance for both firms and workers might be liberalized as part of a more comprehensive program to make industrywide adjustments before a crisis stage is reached.

Agricultural trade barriers are among the most complex of the nontariff barriers to be dealt with under the authority of this bill. In order for us to achieve maximum agricultural export gains, it is vital that agricultural issues be dealt with as part of the total trade-monetary-investment-security-political issue package.

We urge that this committee vigorously encourage the intent of the Administration to resist foreign efforts to fragment the negotiations, since the need for much greater farm product exports is of such urgent importance for our national welfare.

One of the most effective statements regarding the importance of U.S. agriculture in international affairs was the feature article "Can Agriculture Save the Dollar?" in the March 15, 1973, issue of Forbes Magazine. This article says:

The U.S. has lost, probably forever, its edge over Western Europe and Japan in manufacturing efficiency and technology. At the same time, it is burning imported oil at an evermounting rate. Question: How do you pay for the oil if you can't export enough manufactured goods?

That's where farming comes in. The U.S. is fast exhausting its once-plentiful natural resources. But there is one natural resource that, if cared for, never becomes exhausted: farmland. The U.S. has the acreage, the climate, and the potential surplus over its own needs to become the granary of the world. . . .

The Nixon Administration is betting on agriculture to save the dollar. For if oil is essential for industrial civilization, food is necessary for life itself. Food is, potentially at least, the most priceless of all natural resources.

The U.S. last year ran a balance-of-trade deficit of $6.8 billion. On top of the current woeful situation, the future seems impossibly bleak: By 1980, under not overly pessimistic projections, the U.S. could be laying out $18 billion to pay for imported oil, compared with a $4.2 billion payout in 1972. If things were to stay the same, this would imply a potential trade deficit of $20 billion and international bankruptcy for the U.S.

Agricultural exports already are one of the few bright spots in the U.S. trade picture. In fiscal 1973 (the year that ends June 30), the U.S. will export $11.1 billion worth of agricultural products. It will import, estimates the Department of Agriculture, $6.8 billion.

After subtracting $1 billion of foreign-aid-type foodstuffs from the export total, that still leaves a healthy $3.3 billion cash trade surplus in agriculture—largely balancing the deficit in oil. . . .

The Japanese can manufacture as well as we can. They cannot farm as well as we can. The American farmer is not a lone man standing in the field. It would be more accurate to describe his as the human operative of a system of industry, technology, and capital that has taken the natural resources of the abundant land and made it yield a hundredfold.

"Our advantages go back 100 years," says Carroll Brunthaver, Assistant Secretary of Agriculture for International Affairs; "they center in our educational system. Our farmers are educated. The infrastructure—the roads, railroads, irrigation systems—all are there. We have an organized market and an industrial complex that supports the farmer."

These investments may now be at the payoff stage. Growing income overseas means meat in the diet: That is the bright hope of the U.S. balance of payments.

Meat, that is, shipped as grain. Just as the U.S. raises more meat animals than anyone else, it also raises more of the feed grains that fatten these animals. Who can raise corn like the U.S.? For the protein supplement soybeans, the U.S. soil and climate are ideally suited, and the U.S. grows 70 percent of the world's supply.

Wheat, which we think of as a food grain, is also a feed grain around the world, and the U.S. stands ready even now to export up to one billion bushels a year of it.

In short, it is foodstuffs for meat animals that is the U.S. long suit in international trade. Remember, it takes eight pounds of feed to produce one pound of beef, seven to produce one pound of pork.

Even though the well-publicized Flanigan-Worthington report on "Agricultural Trade and the Proposed Round of Multilateral Negotiations" has aroused some fears that farmers would have to assume too large a share of any risks of depressed world farm prices, it has served a useful purpose by showing that removal of major barriers could result in substantial gains for U.S. farm exports.

The report also makes it clear that these gains cannot be achieved unless agriculture is tied to other negotiations. The report indicates that substantial liberalization could permit a potential net gain on the order of $8 billion annually for U.S. agriculture, along with a substantial reduction in farm program costs.

With the removal of barriers, our major farm export customers, the EEC and Japan, could also save several billion dollars annually in farm program costs, plus even larger savings in consumer prices.

While this report has not been formally adopted as administration policy or negotiating strategy, it does offer some compelling arguments as to why we should negotiate aggressively toward more open world markets in agriculture as in other areas.

While we firmly support world trade expansion, it should take place within a framework of reciprocal fair play. We are particularly concerned with those dairy and other import problems which face us because of foreign government subsidies or other such factors which put us at an unfair disadvantage.

We are also hopeful that more rapid progress can be made toward removing or reducing inefficient barriers such as the European variable levy system, which is costly both for European consumers and American farmers.

The national council endorses the concept of the recent proposal for a Joint Congressional Committee on Foreign Trade to monitor or actually to participate in the upcoming round of international negotiations. We believe that members of agricultural and other key congressional committees should be included in its membership.

This would be a most practical way of assuring that the benefit of congressional trade expertise is fully available to our negotiators and that Congress understands the pressures under which our negotiators operate and the rationale for agreements reached.

We strongly support the principle of congressional oversight and veto prerogatives over nontariff barrier agreements and hope that the new joint committee will see fit to designate some members or staff who would be able to follow the negotiations in their entirety.

We urge that the Congress also encourage opportunities for private agricultural and other trade interests to consult continuously and intimately with our negotiators. This would provide useful input as to the practical consequences of agreements reached and avoid public misunderstandings as to negotiating objectives and procedures.

We want to express our firm opposition to the Burke-Hartke bill—H.R. 62—which would establish sweeping and dangerous unilaterally imposed import quotas. Our credibility in seeking more open world markets would be seriously damaged if such legislation were to be passed.

The road to greater world prosperity and peace is through more serious and more effective efforts in international consultations and negotiations—not in arbitrary and ill-advised unilateral action.

Since the role of our chief trade negotiator is so vital to our success in achieving our trade goals, we hope that Congress will in every possible way assist in maintaining the stature and prestige of this office as that of the President's Special Trade Representative.

We believe this office should have more, not less, authority for developing and coordinating our foreign trade policy. We especially commend this office for its long-standing receptiveness to hearing agriculture's problems and for perceptiveness in relating agricultural trade to other issues.

In summary, we support H.R. 6767 as a constructive instrument for removing world trade barriers which impede the flow of goods on a basis of comparative advantage. We believe it is absolutely essential to our national welfare to further open up foreign markets for U.S. agricultural exports in order to pay for rapidly increasing imports in the energy area.

To gain maximum benefits in agricultural exports, farm trade negotiations must be clearly related to other trade, monetary, and economic-political considerations.

We appreciate the opportunity to present our views to this committee.

Mr. GIBBONS. The next witness will be Mr. B. H. (Bill) Jones.

The committee will stand in recess until we can vote and get back.

[A recess was taken.]

Mr. GIBBONS. The hearing will come to order.

Mr. Jones, if you will identify yourself we will put your statement in the record at this point and you may proceed.

STATEMENT OF B. H. (BILL) JONES, EXECUTIVE VICE PRESIDENT, NATIONAL LIVESTOCK FEEDERS ASSOCIATION

SUMMARY

OVERALL TRADE AND NEGOTIATION POLICY

The NLFA's primary concern is for the United States to adopt a reciprocal trade stance in both its formal trade policy and in actual trade negotiations with other nations. The "ivory tower" free trade philosophy which has characterized U. S. trade policy during the past several years has proved to be a dismal failure.

WORLD MONETARY REFORM

World monetary reform must go hand in hand with trade reform since the relative values of currencies play a vital role in the flow of products across national borders; and no matter how flexible a currency rate adjustment process is achieved, it can be undermined and distorted by trade barriers or the subsidization of commodities and products which are exported.

DISCRIMINATORY TRADE BARRIERS

The United States is among the most liberal in the world in its agricultural import policy. Nontariff barriers constitute the principal restraint upon agricultural trade throughout the world; and the highly restrictive nontariff deterrents of the EC and Japan have been especially damaging to the U. S. In fact, the EC's extensive system of non-tariff barriers, including the vicious variable levy, has brought a decline in the U. S. share of that important market for agricultural commodities and products. Even though, when challenged, other countries typically point to the nonuse, at present, of certain existing authority to restrict imports, the fact remains that it has been used and will be again whenever it is in their own best interest.

SPECIFIC EXAMPLES OF TRADE DISCRIMINATION

The U. S. stands to lose most of its duty-free food lard exports to the United Kingdom because of the entry of the U. K. into the EC. Imports of beef and veal into the EC are restricted by import licenses, in addition to the variable levy,

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a relatively high tariff, and other restrictions. At present, prices are at a level which makes the variable levy inactive and the tariff has been cut in half (20% ot 10% ad valorem), but sometime in the future we will be faced with reduced import demand for beef(and other red meats), coupled with expanded production in major exporting countries.

Therefore, the paramount concern to be given serious legislative attention is not what is going on currently, especially with respect to beef, but, rather, forcing changes in the import systems of other countries to prevent gross inequities when production begins to catch up with market growth and demand.

U.S. FAILURE TO USE COUNTERVAILING DUTIES

Section 303 of the Tariff Act of 1930 clearly requires the U. S. to levy a countervailing duty whenever any country pays an export subsidy on a dutiable product. Yet no countervailing duty has ever been levied on subsidized pork exports from the EC, which as of March 15, 1973, stood at a whopping 31.2¢ per pound.

U.S. AGRICULTURAL EXPORTS

The potential of the United States to export agricultural commodities and products is the bright light on an otherwise dismal U. S. trade horizon. Agriculture truly has the potential to make a substantial and critical contribution toward bringing U. S. trade into balance, but such a development is not automatic. Such a role cannot be assured unless this country departs from the "ivory tower" free trade philosophy which has prevailed, insists on reciprocal treatment from other trading nations including the assurance of access to their food and other agricultural markets on an equitable and continuous basis, and stands firm on giving agriculture prominent and equal status with industry in trade negotiations.

LIVESTOCK AND MEAT PRODUCTS

Although there has been some increase in red meat sales abroad, these exports are still of relatively small volume—about 1/12 of U.S. imports of red meat for 1972 on a tonnage basis. Trading in variety meats, fats and oils, hides and skins, and other by-products has traditionally constituted the overwhelming volume of U.S. exports in the red meat animal category. In terms of value, total livestock and meat and livestock and meat products imports (including live animals) were double the value of U.S. exports during 1972.

These U.S. product exports are plagued with highly restrictive import control systems on the part of important importing countries.

H.R. 6767—"TRADE REFORM ACT OF 1973"

The NLFA generally supports the purposes and the provisions of H.R. 6767, except for providing import relief and trade adjustment assistance to workers in the manner prescribed and giving the President unlimited authority to establish trade policy and set tariffs as set forth in Title IV.

Title I.—We conclude the authority to increase and decrease tariffs is accompanied by sufficient safeguards in the form of prenegotiation procedures and reduction limitations. And NLFA looks with great favor on moving against nontariff barriers to further the cause of reciprocity.

Title II.—The Association does not look with favor upon giving the President the privilege of doing nothing to relieve injury to domestic industries. Also, under the proposed language of Chapter 1, an affected party would have petitioner status only with no relief or assistance rights as a matter of law. We do not view adjustment assistance to workers as being a fit remedy.

Title III.—The NLFA strongly favors the authority given to respond to unfair foreign import restrictions. However, the Association does not favor treating duty-free goods differently than dutiable goods under the countervailing duties provisions; nor are we in harmony with providing discretion in the imposition of countervailing duties, in view of the serious distortion resulting from a bounty or grant upon the manufacture, production, or exportation of an article or merchandise.

Title IV.—This title is extremely broad in its delegation of authority to the President and goes beyond what we think is desirable on the part of the Congress. We agree with giving the President authority to impose special import measures to deal with a serious balance-of-payments deficit and do not object to the criteria for the determination thereof.

But the Association is wary of giving the President authority to reduce or suspend duties or any import restriction in dealing with a persistent surplus, subject only to his judgment as to the resulting injury to domestic firms or workers. Also, NLFA strongly objects to the unequivocal provision that import restrictions or other actions shall not be imposed to protect individual domestic industries from import competition.

Likewise, we do not agree that the President should be free to extend trade agreements which expire for as long as he deems necessary or appropriate. And, although broad authority to renegotiate duties or grant compensation or concessions is moderated somewhat by the call for public hearings, there is no restraint on the authority to suspend import barriers in the name of restraining inflation.

Title VII.—The Association is highly reluctant to see Congress give the President unlimited authority to modify or amend the Tariff Schedules of the United States.

Mr. JONES. If it is all right with you, Mr. Chairman, we may go down through the summary and make a point or two and I will ask that the complete statement be in the record.

Mr. GIBBONS. It will be in the record.

Mr. JONES. And then I will comment on a couple of questions that have been raised that have not been fully answered if that is all right with you.

Mr. GIBBONS. Yes, fine.

Mr. JONES. My name is B. H. (Bill) Jones. I am executive vice president of the National Livestock Feeders Association, headquartered in Omaha, Nebr.

Mr. Chairman, we have been working rather diligently since about 1964 in attempting to bring about a change that we thought was a badly needed change in the trade policy of this nation and our primary concern here to day is for the United States to adopt a reciprocal trade stance in both its formal trade policy and in actual trade negotiations. We think that it is obvious that the ivory tower, free trade philosophy which has characterized the U.S. trade policy in the last several years has proved to be a dismal failure.

We do recognize that monetary reform must go hand in hand with trade reform.

There are numerous discriminatory trade barriers and, as far as agriculture is concerned, these are primarily non-tariff, some of them visible and some non-visible as far as agricultural commodities are concerned. This is particularly true of meat and meat products.

I might comment on a question that has been raised today about what we might buy from the EEC and I would again reemphasize that we are now in a deficit position as far as the EEC is concerned, and that what we are really asking is the same kind of treatment that we are now giving EEC, and that is virtually wide open access to our market. This is an important market as far as the animal byproducts are concerned, and so this is what we are really asking, not whether or not we are going to buy more Volkswagens and trade them for meat but what we are asking for is to get the same kind of treatment that we are giving them on their automobiles now.

In that connection the question has been raised as to whether or not we just don't take meat out of our own people's mouths when we export it and the answer to that is simply no. Our overwhelming volume of exports is in the area of variety meats, fats, oils, greases, and other byproducts, and we would submit to you that if certain of these barriers are removed to where we have freer trade in the commodities, or in the products for which we do not have an expanding and aggressive demand in this country, that it can help stimulate meat production in this country and therefore is in the best interest of U.S. consumers and not contrary to that.

Our exports of red meat as such is very small now and we would not see any measurable increase unless and until there would be a substantial increase in production in this country. So, actually, if those markets are opened up to where we have more freedom to export the products for which we do not have aggressive demand in this country, it will be to the benefit of our consumers because it will stimulate production in this country.

I think that you are familiar perhaps that we do not have large market demand in this country for such meat products as variety meats, such as tongues, livers, hearts, and so on, and we do not have aggressive or expanding demands for fats, grease and oils.

So these are the products that we would like to have freer trade in as far as the EEC is concerned.

We do mention in here that there are specific examples of trade discrimination and we are at this point in jeopardy of losing a very good lard market which is bound with the United Kingdom at zero duty; but as the United Kingdom now moves into the EEC and that zero duty is withdrawn and the variable levies come into play we stand a good chance of losing that very good lard market, as the United Kingdom goes into the EEC and the EEC then starts supplying lard under their common agricultural policy.

Here again, lard is a product that is not expanding as far as its consumption in this country. But again if we can maintain trade in lard, this again will help to expand the hog production and meat production in this country.

We have failed to use our countervailing duties in this country. As Mrs. Griffiths pointed out yesterday, this is one example where the industry has been a little bit lax and where we should have been doing more to get our government to carry out the intent of that countervailing duty section of the Tariff Act.

In our statement, also, we have given you information on the potential agricultural exports and more specifically we have given you some figures in the back of the statement which compare the imports of meat and meat products and livestock products with the exports, and the export actually of meat, red meat, is as I have stated rather small. It is only about one-twelfth of our imports, whereas it is our byproducts, variety meats, this type of thing that make up our export trade.

Then we have gone down through title by title on H.R. 6767 and do have some specific recommendations there, Mr. Chairman, for some changes in the law. We basically would support the purpose and provisions of H.R. 6767 but we have made some recommendations for changes and they are in the statement, so I will not go through them title by title as they are set out.

[Mr. Jones' prepared statement follows:]

STATEMENT OF B. H. (BILL) JONES, EXECUTIVE VICE PRESIDENT, NATIONAL LIVESTOCK FEEDERS ASSOCIATION [1]

The National Livestock Feeders Association's primary concern is for the United States to adopt a reciprocal trade stance in both its formal trade policy and in actual trade negotiations with other nations.

OVER-ALL TRADE AND NEGOTIATION POLICY

For many years the United States Government, under the guidance of the State Department, has used foreign trade negotiations as an international relations tool in an attempt to buy goodwill around the world; and in so doing has hewn to an "ivory tower" free trade philosophy. This approach has divorced negotiations from economic considerations and has been a dismal failure, as evidenced by our critical negative balance of payments, the substantial loss of gold reserves, and the irreparable harm it has brought to U.S. Agriculture and industry.

The U.S. approach to trade negotiations has cultivated the attitude so prevalent among other nations that they should enjoy unlimited access to this market and yet allow the importation of only those U.S. commodities and products—and in the volume—which suits their domestic goals at the moment and maintain a noncompetitive fence around their domestic producers and industries. Japan and the European Economic Community are prime examples of this attitude; and they have enjoyed substantial benefits therefrom, as evidenced by their dependence on the U.S. market and their positive balances of payments at the expense of this country.

The "diplomatic" attitude of the State Department has definitely carried over into the adminisration and policy determinations of our embassies and has often made it difficult for our agricutural attaches to work effectively in market development and product promotion activities.

The use-of-foreign-trade-for-buying-goodwill policy existed as an integral part of U.S. foreign policy until President Nixon rocked the world in August of 1971 by imposing a surtax on imports and announcing to the world that the U.S. would no longer play this kind of one-sided "sucker" game.

Let me emphasize at this point that the stand of the National Livestock Feeders Association with respect to foreign trade is not one of isolationism, nor is the Association in harmony with the opposite philosophical extreme of "ivory tower" free trade. For many years NLFA has preached *reciprocity* in trade policy and negotiations.

Now that there is definite evidence of a swing in this direction in the White House, we again urge the Congress to assume this type of stance in foreign trade legislation—and, in fact, set down legislative guidelines which will force those charged with trade negotiation responsibility to demand reciprocal treatment for U.S. agriculture and industry.

WORLD MONETARY REFORM

World monetary reform must go hand in hand with trade reform; otherwise it will be impossible to ascertain the end results of certain trade policy changes. Although identified as separate entities, monetary policy and trade policy are actually entwined parts of the international economic system.

The relative values of currencies and the manner in which such values are determined play a vital role in the flow of products across national borders. And this is not a static influence, especially as it bears on a developed country such as the United States. The relationship is being constantly affected by internal economic changes in the countries which are influential in international trade.

Thus, the monetary system must be sufficiently flexible to cope with constantly changing relationships among the economies and economic strengths of influential trading countries, while at the same time lend sufficient stability to the world situation to maintain monetary confidence and to avoid gross inequities.

Most certainly the gross inequities and serious injury resulting from having its currency become dear in relation to that of other economically influential nations

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[1] The National Livestock Feeders Association is a voluntary non-profit, non-political trade association of persons engaged in feeding and finishing livestock. Membership concentration is in the North Central Region of the Nation, an area which feeds nearly 60% of the fed cattle marketed and produces 75% of the Nation's hogs. There are 150 state and local feeders associations affiliated with the National Livestock Feeders Association.

has been indelibly impressed upon the U.S. during these recent years in which the dollar has been "misused" as the peg on which other countries have hung their "currency hats."

The existence of the European Economic Community and its recent expansion further complicates the issues. Because of the special considerations given agricultural commodities under the EC's Common Agricultural Policy (CAP), when an EC country permits its currency to float but maintains an official par value, two exchange rates come into being for agricultural commodities: (1) the official par value which applies to domestic production through support prices; and (2) the international market value which applies to imports and exports.

Negotiations are already under way on international monetary reform, and, hopefully, solutions can be found to the problems which plague this highly technical area of international economics. No matter how flexible a currency rate adjustment process is achieved, however, it can be undermined and distorted by trade barriers which shield industries from price competition.

DISCRIMINATORY TRADE BARRIERS

The United States is among the most liberal in the world in its agricultural import policy. All major trading countries, with the possible exception of Canada, provide a much higher degree of protection for domestic livestock producers than does this country.

The USDA Agricultural Handbook No. 132 (revised March, 1964) entitled *Agricultural Policies of Foreign Governments* stated: "In most countries, discretionary import control authority is still vested in governmental agencies and is widely used to restrict imports. Many governments have programs for maintaining domestic prices of selected farm products above the level of world market prices. In addition, a good many use export subsidies, bilateral trade agreements, and other devices which tend to create special trade advantages for agricultural commodities of certain countries not enjoyed by products of other countries."

Also, in the USDA study covering nontariff barriers published in *Agricultural Protection by Nontariff Trade Barriers* (ERS-Foreign-60, Sept., 1963), the then Secretary of Agriculture made the following statements in announcing the results of the study: "The study shows that all our major trading partners practice a higher degree of agricultural protectionism through nontariff barriers than does the United States. The United States is among the most liberal in the world in its agricultural import policies. The farmers of the United States carry out their production operations with far less protection from competitive imports than do farmers of practically all other countries." With regard to livestock and meat specifically, the study showed that *the United States and Canada were the only major trading nations in the world with no nontariff protection for domestic producers.*

Why refer back to 1963 and 1964 when talking about trade barriers? Merely to vividly point out that the more things change, the more they stay the same as far as trade barriers and discrimination practiced by other nations are concerned. Again we plead the case for the U.S. to depart from the "ivory tower" free trade philosophy (free trade for free trade's sake) and adopt a policy calling for reciprocity in trade policy and negotiations.

The degree to which other major trading nations and groups of nations have taken advantage of the U.S. during recent years is ample evidence that academic idealism simply does not work in the real world of international trade. We should start playing our trading hand instead of merely laying our cards face up on the table and letting other countries play for us.

When challenged by the U.S. on specific protectionistic trade barriers on their books, other countries typically respond, "Oh, yes, but we are not using them." The fact of the matter is, however, that they have used them and will do so again whenever it is in their own best interest. If they are not, and do not intend to use said restrictive devices, they should have no reluctance to drop them from their portfolios.

The Committee is knowledgeable as to the existence of various types of trade barriers, tariff and nontariff, and therefore we do not intend to belabor the point. It may be well, however, to review the current situation with respect to the European Common Market because of its importance to U.S. agricultural exports and the added problems continued restrictiveness will bring in light of the recent expansion of the EC.

The European Community is the single most important importer of U.S. agricultural products. Therefore, the expansion of the Community and the provisions of its Common Agricultural Policy (CAP) have important implications for the United States. To date there is no indication that member nations have any intention of giving serious consideration to the call for reciprocal treatment of which has been a part of EC policy since its beginning, or that they have any intention of giving serious consideration to the call for reciprocal treatment of nonmember trading partners. Apparently the Community looks upon the statements being made by this country regarding agricultural trade as a smoke screen and fully expects the U.S. to capitulate, as it has done in the past, and accept whatever trading cards the EC chooses to deal.

The fact that the Community is not currently using all of the ammunition it has on the books to restrict agricultural imports—being rather liberal on several commodities and products at present—should not lull U.S. negotiators into complacency. The CAP includes highly restrictive tariff and nontariff barriers to agricultural trade, coupled with strong incentives to increase domestic production. For many products these incentives guarantee markets for unlimited production, either through export subsidies or government purchases.

USDA states that over 90% of the value of agriculture production in the six original EEC countries is subject to support and import protection under the CAP. In addition, there are still national barriers against imports for a number of products.

The most restrictive nontariff barrier employed by the EC is the variable import levy. Variable levies protect over two-thirds of the Community's agricultural production and severely limit the importation of U.S. products subject to the levy. These products include beef, veal, and live cattle and calves, all of which are subject to tariff protection as well.

Fresh, chilled, and frozen beef and veal are subject to the variable levy, import duties, and import licenses, as well as health restrictions which are often used purely as import restrictive devices under the guise of health considerations. Fresh, chilled, and frozen pork is also subject to the variable levy.

In addition to the restrictions of the Community, West Germany prohibits the importation of beef cuts and pork and accepts meat only from U.S. processing plants which have been inspected and passed by West German authorities. Italy requires certification that the animals from which the meat was derived were not fed an estrogen.

Nontariff barriers constitute the principal restraint upon agricultural trade throughout the world. For additional details on these barriers in the EC, the Committee is referred to *Agricultural Trade Policy*, Foreign Agricultural Service, U.S. Department of Agriculture, December, 1972 (ATP-10-72).

SPECIFIC EXAMPLES OF TRADE DISCRIMINATION

The case of food lard vividly points out the extent to which U.S. exports stand to suffer as a direct result of the United Kingdom becoming a member of the European Community. The U.S. is the principal supplier of food lard to the U.K., furnishing about 60% of that country's imports in 1970 and 1971.

The U.S. obtained a duty-free binding from the U.K. on lard in 1947 and has negotiating rights amounting to $30.4 million. This zero duty binding is now being withdrawn and replaced by the EC's variable levy.

The EC first instituted a CAP for pork in 1967. Since that time European lard production and export capacity have been steadily increasing as a result of production stimulation including high minimum import prices, a variable levy on imports, and the payment of export subsidies on sales of lard to the U.K.

As long as the EC is unable to compete with the U.S. on the bakery and direct household lard markets in the U.K., adoption of the EC's CAP on pork will not prevent the U.S. from continuing to supply a large share of this market. However, we do stand to lose most of these exports to the U.K. over the next few years unless the variable duty is either eliminated or bound at some ad valorem rate well under 50%.

It is our understanding that the U.S. is entitled to request duty-free treatment on food lard on the part of the enlarged Community and we should most certainly do so.

In the case of pork itself, even when we do clear up hog cholera completely in the U.S., we have no assurance that pork can be shipped to any of the EC countries. Contrary to the case of lard, we have no historical base to show loss of trade dollars.

Certain of the EC countries go so far as to restrict imports of beef by designating the form required for importation. Beef imports into Germany are restricted to carcasses; no cuts may be imported. France allows only pieces weighing three kilograms or more to be imported; in the Netherlands and Belgium, the size restriction is ten kilograms or more.

Beef and veal imports into the EC are further controlled by import licenses, which are not freely given. The effectiveness of this requirement as a control measure is clearly evidenced by the current situation with respect to Australia and New Zealand. To the uninitiated eye, it would seem that the EC is being rather liberal at present. Last November the Community cut its import duty on beef in half, from 20% to 10% ad valorem; and no levies have been imposed on beef imports since February, 1972, because prices have been well above the equivalent of the target price.

The question logically arises, in view of the high prices currently prevailing in the EC countries for beef—higher than the U.S. market—why hasn't more of the beef being exported from Austrailia and New Zealand gone to the EC? The answer is simply that import licenses for beef are not being issued.

Also, the existence of the variable levy has discouraged distant countries, such as Australia and New Zealand, from trading with the Community since the levy is capable of being changed each week, and in times past, the combination of the levy and the duty has amounted to as much as 45–50% ad valorem.

Sometime in the future we will be faced with reduced import demands, coupled with expanded production in major exporting countries. Therefore the paramount concern to be given serious legislative attention is not what is going on currently, especially with respect to trading in beef, but rather the bringing about of changes in the import system of other countries to prevent gross inequities when production begins to catch up with market growth and demand. Without radical changes in the import restrictions of Japan and the EC in particular, the U.S. will again be confronted with the same circumstances which led to the passage of the Meat Import Law in 1964.

In visiting with firms engaged in the export trade in meat, we have found key officials reluctant to specify dates, times, and exact circumstances wherein import restrictions of other nations have given them problems. The reluctance stems primarily from public relations considerations of not wanting to take the risk of harming established relations with the client or with the officials of the importing country.

At the present time it is clearly a seller's market, but U.S. exporters are worried about what will happen when supplies of meat and other animal products begin to catch up. Quotas, and all the government red tape connected therewith, have been very restrictive and troublesome in the past, specifically in the case of Japan. Import levies on pork have also given us similar problems in our attempted trade with that country.

The required import licenses by the EC was also cited as a troublesome restriction. The importer must deposit a surety to obtain the license; it is issued for a specified volume of product and must be renewed. In this way the quantity can be varied at will by the EC and the exporter is never assured of access to the market.

The highly stringent sanitary requirements in force for Germany have made it impossible for many U.S. processors and traders to export meat to that country. According to one of the beef packers most heavily involved in sales to Germany, it was mandatory that the inspector (German representative) actually be in the plant and carry on inspection at the time of slaughter and then during the entire fabrication and processing of the product. This has been relaxed somewhat of late; but again the point is that the situation can readily revert to previous degree of stringency at the will of the receiving country to suit its interests of quantity and other control of its imports.

The U.S., of course, has inspection requirements also, but these are consistent and are used only for wholesomeness and health purposes; whereas other nations have typically used health and sanitation standards for a variety of self-interest purposes and have relaxed or tightened them at will to fit the occasion.

The EC variable levy combined with the tariff caused one U.S. packer to abandon his exportation of sausage-type meat. "It just proved to be too costly to try to sell to the EC countries."

Cost of entry was also given the most often as a problem in exporting variety meats and other offal items and by-products. At this point it is well to note that the United States cut tariffs in half on most livestock and meat products in 1948. The effective level, however, has been reduced much more than the per pound figures indicate due to the failure of the U.S. to adopt the ad valorem basis during the inflationary years since the 1930's. In contrast, most other major trading countries, including the EC and Japan, are on the ad valorem basis. Therefore any apparent relaxation cannot be compared directly with the U.S. In effect, in view of the consistent inflationary trend, the U.S. has continuously reduced its tariffs on most meat imports.

U.S. FAILURE TO USE COUNTERVAILING DUTIES

The failure of the U.S. to follow its own law with respect to levying countervailing duties has resulted in other nations taking additional advantage of this country in the trading arena. Section 303 of the Tariff Act of 1930 clearly states that whenever any country pays an export subsidy on a product which is dutiable, the U.S. shall levy a duty equal to the subsidy paid. Note the use of the word "shall" which leaves no room for administrative discretion. Yet no countervailing duty has ever been levied, for example, on subsidized pork exports from the EC to the U.S. As of March 15, 1973, the EC subsidy on such exports was a whopping 31.2¢ per pound.

U.S. AGRICULTURAL EXPORTS

The potential of the United States to export agricultural commodities and products is the bright light on an otherwise dismal U.S. trade horizon. It is not necessary to belabor here the very serious plight of this nation with respect to its balance of payments. The Committee is as knowledgeable of the situation as we are. Also, it is not necessary to dwell on the U.S. loss of its favored world position of yesterday on a wide range of manufactured and industrial products and materials. In general, this leaves the U.S. in a strong trading position on only sophisticated equipment and systems, heavy equipment and machinery, and agricultural commodities and products.

Fortunately the world position of U.S. agriculture has been greatly enhanced of late as other countries of the world have developed "money economies." The significant increase in U.S. agricultural sales for dollars compared to government-assisted foreign shipments evidences the effect of the changing world situation.

According to the USDA, dollar sales during calendar year 1972 reached $8,338.2 million, an increase of $1,713.7 million over 1971. Government-assisted foreign shipments totaled $1,065.4 million, down $3.3 million from 1971. This means that dollar sales accounted for 89% of the $9,403.6 million of total agricultural shipments in 1972. Just five years earlier, in 1967, dollar sales accounted for 76% of total value of agricultural shipments. Six commodities accounted for 85% of the government-program exports during 1972. These were wheat and flour, rice, dry milk, cotton, soybean oil, and corn. It should be noted that higher prices accounted for about one-third of the increase in the value of 1972 exports.

Agriculture truly has the potential to make a substantial and critical contribution toward bringing U.S. trade into balance, as the Committee is aware. However, we hasten to raise the red flag of caution lest it be assumed that such a development is automatically going to come about.

There must be a radical change in U.S. trade policy, in the import systems of major importing countries, and in the international monetary system if U.S. agriculture is to fulfill its destiny in this respect. Such a role in world trade cannot be assured unless this country departs from the "ivory tower" philosophy which has prevailed, insists on reciprocal treatment from other trading nations, including the assurance of access to their food and other agricultural markets, on an equitable and continuous basis, and stands firm on agriculture being given prominent and equal status with industry in trade negotiations.

If agriculture is given segregated and last priority treatment, such as was done during the so-called Kennedy Rounds, U.S. agriculture will again be left in the untenable position of facing insurmountable trade obstacles—mainly in the form of visible and nonvisible nontariff barriers—whenever other importing countries see fit to invoke them.

LIVESTOCK AND MEAT PRODUCTS

Export sales of livestock and meat, and livestock and meat products have been, and are currently, for dollars. Although there has been some increase in red meat sales abroad of late, these exports are still of relatively small volume. The primary reasons for this are continued strong domestic demand, overseas transportation costs and problems, and the highly restrictive import systems of other nations.

Trading in livestock and meat products, including variety meats, fats and oils, hides and skins, and other by-products, has traditionally constituted the overwhelming volume and value of U.S. exports in the red meat animal category. For the most part, domestic preferences have not been strong for these products compared to their traditional usage in other countries, such as those of Western Europe.

In contrast to its export sales, the U.S. is a large importer of red meat. In 1972 red meat imports of nearly two billion pounds were almost 12 times the export tonnage (not including variety meats). Conversely, U.S. exports of variety meats, fats and oils (edible and inedible), hides and skins, and other by-products were 2.9 billion pounds.

In terms of value, total livestock and meat and livestock and meat products imports (including live animals) during 1973 were nearly double the value of U.S. exports of these commodities and products—$1,570 million of imports vs. $813 million of exports. (See Tables 1 and 2 for detailed breakdown of categories.)

The aforegoing comparison is based on export value being defined as the value at port of exportation (selling price or cost plus inland freight, insurance, and other charges to the port) : import value is the market value in the foreign country and excludes import duties, ocean freight, and marine insurance—in other words, foreign value rather than landed cost at U.S. ports. Figuring imports on a c.i.f. basis (ocean freight, marine insurance, an dother shipping charges included) would increase the import values by around 10%, according to U.S. Tariff Commission estimates for all imports. On this basis, the value of U.S. imports of livestock and meat and livestock and meat products for 1972 would be $1,727 million, or a little over twice the value of exports.

PROPOSED LEGISLATION

We would hope that all U.S. interests are now in accord on the basic question of the need for trade reform, and that all agree on the proposition to adopt a truly reciprocal stance on trade policy and actual negotiations. If we can proceed on such an assumption, the deliberations of the Congress can then focus on the specific provisions to be written into law to accomplish that basic objective.

Surely one of the crucial legislative considerations is the extent to which it is necessary and proper to go in delegating authority to the President, especially in view of the responsibility reserved to the Congress in the Constitution to regulate foreign commerce and determine duties. Legislative proposals should be viewed in the light of this consideration.

H.R. 6767—"TRADE REFORM ACT OF 1973"

The NLFA generally supports the stated purposes and the provisions of the "Trade Reform Act of 1973," except for providing import relief and trade adjustment assistance to workers in the manner prescribed in the present version of the bill, and giving the President virtually unlimited authority to establish trade policy and set tariffs as set forth in Title IV. The latter considerations will be discussed under the appropriate titles.

Title I—Authority for New Negotiations

Under this title the President is given unlimited authority to increase or decrease tariffs, subject to certain prenegotiation procedures and reduction limitations. On the surface it would appear that such delegation of authority might be too far-reaching. However, upon careful consideration we have concluded that the safeguards, in the form of prenegotiation procedures, including notification to the Senate and House of Representatives, and reduction limitations, are sufficient.

This Association looks with great favor on the provisions contained in Sec. 103 of Title I dealing with discriminatory nontariff barriers to further the cause of reciprocity.

Title II—Relief From Disruption Caused by Fair Competition

The provisions of present law have not provided a practical avenue of recourse for domestic firms or industries injured by imports. The proposed changes contained in Chapter 1 would no longer require a linking of increased imports to a previous tariff reduction, or proof that the increased imports were the "major" cause of injury. The President would also be given alternative choices of remedy in the form of increasing the duty, imposing some other import restriction, negotiating an orderly marketing agreement with other countries, or a combination of remedies; or he can do nothing.

The latter—the privilege to do nothing—along with the authority to terminate or reduce said import relief at will are bothersome to us. We would prefer to have appropriate conditions attached to the decision to do nothing and to the termination or reduction of such relief. The uncertainty connected with proposed provisions greatly reduce the value of import relief.

Also, under the proposed language of this chapter, no affected party, whether industry, agriculture, or labor, would have import relief or adjustment assistance rights as a matter of law. Said party would be purely and simply a petitioner, and this could lead to resolution on the basis of political power or lack of it.

Turning to adjustment assistance (Chapter 2), which would be available to workers only, we seriously question the fitness of adjustment assistance as a remedy. It can do nothing to prevent imports from despoiling a market in this country. Its only function is purely welfare in nature, to help the workers in an industry which has been stopped in its tracks by imports turn to something else. And to accomplish even this function, payments must be liberally administered, meaning large financial outlays by the Federal Government and a feeding of the fire of inflation with no corresponding strengthening of competitive position.

Negotiating trade agreements on a reciprocal basis, and insisting on their administration strictly on this basis, plus providing import relief of the nature set forth in Chapter 1 of this title should forego the need for outright welfare grants to U.S. workers.

Title III—Relief From Unfair Trade Practices

The NLFA strongly favors the responses to unfair foreign import restrictions and export subsidies set forth in Chapter 1 and withholds comment on Chapter 2 having to do with amendments to the Antidumping Act.

Chapter 3—Countervailing Duties.—The Association is in favor of making duty-free goods subject to countervailing duties, in the interest of preventing trade and monetary distortion; however, we oppose treating duty-free articles or merchandise differently than dutiable imports in this regard. In light of the authority being delegated to the President in the proposed legislation to reduce U.S. tariffs to zero, the list of duty-free goods could be significantly expanded. Also, making the imposition of countervailing duties on duty-free imports subject to a determination of material injury by the Tariff Commission is contrary to the prevailing theme and purpose of the proposed legislation.

We therefore urge that the provisions relating to duty-free articles and merchandise be deleted from the proposed bill and that said goods be treated in the same manner as dutiable imports.

The Association also urges the deletion of the language which provides for discretion in the imposition of countervailing duties (page 59 of H.R. 6767). The distortion resulting from a bounty or grant upon the manufacture, production, or exportation of an article or merchandise can do serious harm to trade and to the international monetary system. Therefore we favor the mandatory language now contained in the 1930 Act.

Title IV—International Trade Policy Management

This title is extremely broad in its delegation of authority to the President. The heading for the title should read "International Trade Policy Determination" rather than "Management", because the language generally would give the President the authority to establish trade policy, not just manage predetermined policy. The delegation of authority goes beyond what we think is desirable on the part of the Congress.

This is not to say, however, that we think the title should be scuttled in its entirety. We agree with giving the President authority to impose special import measures to deal with a serious balance-of-payments deficit. And we do not object to the language contained in Sec. 401(a)(1), or to the criteria for determining when a serious balance-of-payments deficit exists as outlined in Sec. 401(b).

We are very wary, though, of giving the President authority to reduce or suspend duties or to increase or suspend any import restriction in dealing with a persistent surplus, subject only to his judgment as to the resulting injury to domestic firms or workers. We also strongly object to the language contained in lines four through seven on page 68 of the bill, which states that import restrictions and other actions shall not be made to protect individual domestic industries from import competition. This kind of a blanket prohibition against protecting domestic industries, without regard to circumstance, is dangerous.

Likewise, we do not agree that the President should be given blank-check authority to extend trade agreements which expire for as long as he deems necessary or appropriate, as provided in Sec. 402.

The delegation of broad authority in renegotiating duties (Sec. 403) and granting compensation or concessions (Sec. 404) is moderated somewhat by providing for public hearings (Sec. 410). However, no constraint of any kind exists in the proposed legislation with respect to the authority to suspend import barriers in the name of restraining inflation (Sec. 405).

Title VII—General Provisions

Moving now to the last title of the proposed bill, and specifically to Sec. 708, the Association is reluctant to give the President unlimited authority to modify or amend the Tariff Schedules of the United States. Under the provisions of this section, the President could establish new classifications, transfer articles from one classification to another, and abolish classifications at will. He could also modify the rate of duty applicable to any article, including elimination, in the name of simplification or clarification.

TABLE 1.—VALUE OF U.S. EXPORTS OF LIVESTOCK AND MEAT AND LIVESTOCK AND MEAT PRODUCTS[1]

	1971	1972
Live red meat animals	$46,210,000	$67,115,000
Red meat and meat products	151,490,000	203,981,000
Fats, oils, and greases	268,181,000	209,225,000
Hides and skins (excluding fur skins)	155,071,000	291,647,000
Other red meat animal products (hair, wool, sausage casings, etc.)	33,787,000	41,517,000
Total (including live animals)	654,739,000	813,485,000
Total (not including live animals)	608,529,000	746,370,000

[1] Export value—value at port of exportation (selling price or cost plus inland freight, insurance and other charges to the port).

TABLE 2.—VALUE OF U.S. IMPORTS OF LIVESTOCK AND MEAT AND LIVESTOCK AND MEAT PRODUCTS[1]

	1971	1972
Live red meat animals	$122,213,000	$169,735,000
Red meat and meat preparations	1,046,462,000	1,219,354,000
Hides and skins (excluding fur skins)	51,379,000	65,201,000
Other red meat animal products (bones, hair, bristles, fats and oils, gelatin, sausage casings, wool, etc.)	103,886,000	116,185,000
Total (including live animals)	1,323,940,000	1,570,475,000
Total (not including live animals)	1,201,727,000	1,400,740,000

[1] Import value—market value in foreign country (excludes import duties, ocean freight, and marine insurance); in other words, foreign value rather than landed cost at U.S. ports. Figuring imports on the basis of c.i.f. (ocean freight, marine insurance, and other shipping charges included) would increase the above dollar amounts by approximately 10 percent, according to U.S. Tariff Commission estimates.

Mr. GIBBONS. Thank you, Mr. Jones.

Mr. Burke?

Mr. BURKE. I have no questions. I just wish to commend the gentlemen and thank him for his statement.

Mr. GIBBONS. Mr. Jones, let me ask you a couple of questions.

On the countervailing duty on pork you point out an illustration on your second page. Is the reason that we have not asked for a countervailing duty on pork that we have a heavy demand in this country or is it that nobody wants to impose it?

Mr. JONES. We have never invoked a countervailing duty on pork even though at times the demand was not in relation to supply that it is today. I assume one of the reasons that has not been invoked today is because of the situation versus supply, yes.

Mr. GIBBONS. I understand the variable levy as it affects grains and other things, but I am not sure I understand the variable levy as it affects red meat. Will you explain that to me?

Mr. JONES. The variable levy that affects red meat actually has not been in use since February of 1972 because the target prices have been sufficiently high so that it has not been enforced. Of course it can still be invoked.

Roughly the way that it works is this: No levy is applied if the commodity market price was at least 106 percent of the target price. If the market price is 104 to 105.9 percent of the target price, then 25 percent of the full levy is imposed. If the market price is the same as the target price, or lower, a full levy was imposed. So the full levy is the difference between the commodity target price and the comparable world price.

So, the system does effectively insulate the community live animal and meat markets from the effect of prices prevailing on world markets. Now it is not quite technically correct to say that the countervailing levy merely makes up the difference between the world price, or what we might offer meat to them for, and what the target price is, but that in effect is the practical application of it.

So even though we are willing to sell them meat or, let us say a byproduct of some kind, liver, so forth, at a lower price than the target price, effectively the variable levy lifts that price up to the target price.

Mr. GIBBONS. On the matter of surpluses, has the EEC had to dump anything other than butter recently? I am not talking about wheat or anything like that, but have they dumped anything in the area of livestock?

Mr. JONES. In the area of animal products?

Mr. GIBBONS. Yes, sir.

Mr. JONES. The dairy area would be the only area that I am aware of.

Mr. GIBBONS. That involved primarily butter, is that right?

Mr. JONES. That was my understanding, yes. Might I answer one question you raised this morning with regard to DISC and the use of it?

Mr. GIBBONS. Yes, sir.

Mr. JONES. We have checked and to our knowledge there are only there processes that have used DISC. It is a very minor thing. You would understand of course that it would be the exporter that would have that privilege and not the producer.

Mr. GIBBONS. Yes, sir, I understand.

Mr. JONES. It would be very minimal and very insignificant, is the information that we have been able to glean.

Mr. GIBBONS. Can you give us the names of the ones who are using DISC?

Mr. JONES. No, I can't. I don't know whether the sources we have would be—I suppose they would have no reason not to disclose those and I will be glad to get them for you.

Mr. GIBBONS. If you would, I would appreciate it. If you will just send me a copy, I can see whether or not it should go in the record.

Mr. BURKE. Mr. Chairman, I also would like him to include in that information whether any of those are exporting hides.

Mr. JONES. Exporting hides and using DISC?

Mr. BURKE. Yes.

Mr. JONES. I will see, Mr. Burke, what I can do in getting that information for you. I am not sure that it is readily available to us, but I will check.

Mr. Burke, we do sympathize very much with your footwear people and with your tanners and so forth, but it is a fact that the domestic market has used about a certain amount of hides regardless of price up or down. It is also a fact that if we gave them the hides, that they still would have a rather rough time competing in today's market.

There was, of course, a time, as you may recall, not too many years ago, when, if we butchered an animal on the farm, we did not even bother to save the hide because the hide was a detriment.

The world situation has changed that. If we had to rely on the domestic market, that situation would still exist today. You can see from that why we feel rather strongly about being able to have access to the export market on hides. We also understand your people's position.

Mr. BURKE. I don't think that the footwear or tanneries mind you having an access to the foreign markets. What they do object to is being deprived of the grade of hides that they formerly were able to buy and see those hides being shipped overseas.

Mr. JONES. Isn't their main problem, however, sir, that the per unit cost has gone up so much that it has really put them in a bind?

We know that the amount of leather going into a given shoe, for example, is a rather insignificant part of the price of that shoe. I don't mean to belabor the point.

Mr. BURKE. Of course, if the tanneries can't get the hides, then the footwear people who make the shoes can't get the tanned product in order to make the shoe.

Mr. JONES. The hides of course are available. It is only a question of price. The number of hides that they want to buy are available for them to buy. It is only a question of price.

Mr. BURKE. Of course, the foreign market is able to pay a higher price because they have such low wages over there, and they save money on the other end. This puts them in a better position to buy the hides.

As you say, it is only a small percentage of the cost of the shoe. We have to have the product in order to be able to manufacture shoes.

Mr. JONES. We are very concerned about the U.S. industry because it seems to us that this is an industry that very badly needs to be modernized, and we do need modern facilities and so forth.

So, we are very much concerned about this and would welcome the opportunity to sit down with the tanners and other people at any time that they would wish to do so.

Mr. BURKE. We tried to appeal to the people during the last year to straighten out the problem, but they were getting such a high dollar for their hides overseas nobody would listen to us.

This has created quite a problem. I think that we are shortsighted not to take care of the domestic needs. I vote for agricultural bills year after year, since I have been here for 15 years. I am known as one of the big spenders, of the one year I wanted to cast an economy vote and vote against the agricultural bill, and the Speaker of the House, John McCormack, said, "Jim, vote for it reluctantly," which I did.

You know, it is a two-way street.

One group can't have all their cake and eat it and leave the crumbs to the rest of the people. You have to spread the thing around a bit.

As I pointed out today, we have some provisions in the Burke-Hartke bill. Quite a few of our multinationals are quite upset because of the tax provisions in it.

Then we have provisions in there for quotas. If all my industries are gone in my district, and we can't set up quotas for some of these injured industries—of course, I wouldn't mind making a 180-degree turn and move to eliminate all quotas.

Of course this would work in a harsh way on your people. I hope we don't have to do that. I hope we get those members from the cattle States and the cattle areas to feel a little concern about the plight of the people in the other areas who are suffering quite badly because of the imbalance of trade and the import problems we are having.

Mr. JONES. Mr. Burke, we have been of the frame of mind lots of times when we would like to shut these doors and to jar other nations around the world who shut theirs on us.

We recognize certainly that the domestic market is our primary market, as Mr. Vanik brought out, and certainly this is the one that we are going to serve first, and it is the best market by far that we have in the world. If it were possible to just shut the doors in complete isolation, our industry would survive very, very well. But I think that under the thinking that prevails today, that is an unrealistic attempt.

So, I think it would be an exercise in futility perhaps to attempt to go down that road. At least that is our appraisal.

Mr. BURKE. I believe the testimony this morning indicated that there is about 1 percent, less than 1 percent of your production that is exported.

Mr. JONES. It is a little bit difficult to pin it down to a percentage when you talk in terms of volume.

If you will refer to the back pages of my statement, there are two tables back there giving exports in terms of value and imports in terms of value because when we try to start adding pounds of hide, hair, meat all together, we begin to mix apples and oranges, about all you can do is put it on the dollar volume.

Those tables are in the back of the statement for your use and reference.

Some of the price increase, of course, from 71 to 72, or about a third of the increase would be represented in price increases, so that has to be taken into account. But our exports of red meat, per se, if we don't take into account the byproducts, the variety meats, the hides, the hair, and so forth, is a very insignificant amount of our total production.

Mr. BURKE. All I am trying to do up here is to get the attention of the Administration and some of the people in the other areas on the problems of the other groups and other industries to see if we can't equal it out a bit and put a little bit of the burden on somebody else's shoulders and not let one group carry the whole burden, as is happening at the time.

I think you people can be appealed to. I think you have been fair over the years. I think it is unfortunate that hides have been exported as they have been in the past year.

I can understand sometimes there are other factors that have to be considered.

Mr. JONES. We certainly agree, Mr. Burke. We certainly are very disappointed and disgusted with the way we have let other nations in effect ride completely over the top of us as far as our market is concerned, at the same time set up barriers for our getting into theirs. We certainly would like to see this equalized.

Mr. BURKE. They all want part of our market, but they don't want to give us part of their market.

Mr. JONES. That is right.

Mr. GIBBONS. Mr. Duncan.

Mr. DUNCAN. You mentioned the fact that the highly restrictive non-tariff barriers in the European Economic Community and Japan have been especially damaging. Have they been increasing through the years?

Mr. JONES. No. Now with the shift, of course, in the position of meat—let me rephrase, and say that, fortunately, with other countries now coming up to money economies, notably Japan and Western Europe, countries in Western Europe, from the clamor of their own citizens they have been forced to relax certain of their import restrictions.

Japan, for example, has increased its quotas on beef, and the figures I think are given in my statement as to the amounts. They have set aside their levy on pork, did so part of last year, and are doing so from April through June 30 this year.

In the Common Market the variable levy has not been effective on beef since February 1972, and they have cut their ad valorem tariff from 20 per cent to 10 per cent last November.

The fact still remains that all of those barriers still exist. This is the thing that disturbs us. Anytime it is to their benefit to use them, they will immediately put them back into effect.

What we have said in here is that legislation now—the thing that needs legislative attention—is what exists on their books, not what they are using.

The State Department comes back to us and says, "Give us some specific examples," because they say, "Yes, we have this but we are not using it."

But the point is that they have used it and the point is that they will use it next week if it is in their interest. We have no assurance that we have access to that market. As long as they need the product and want it, we will have access. The day that they don't, we won't.

Mr. DUNCAN. Some people say if we ask for fair trade, we have a trade war.

Mr. JONES. I think the only thing that the United States needs to do is to start playing its own trading hand instead of laying its cards face up on the table and letting other nations play them.

As was brought out here yesterday and today, we are not beggars. We have the largest and most attractive market in the world.

Our problem, however, has been that we have played Santa Claus too long in trying to buy the goodwill of nations around the world and not be concerned with economics.

Mr. DUNCAN. Do you actually favor free trade as long as it is fair trade?

Mr. JONES. We favor reciprocal trade, Mr. Duncan.

Mr. DUNCAN. Thank you very much.

Thank you, Mr. Chairman.

Mr. GIBBONS. Thank you, sir.

The next witness is Mr. John Frazier, Jr., accompanied by Mr. Samuel H. Sabin. Mr. Frazier, you are recognized. Your statement will appear in the record.

STATEMENT OF JOHN FRAZIER, JR., PRESIDENT, NATIONAL GRAIN & FEED ASSOCIATION, ACCOMPANIED BY SAMUEL H. SABIN, CHAIRMAN, INTERNATIONAL TRADE COMMITTEE

SUMMARY

The National Grain and Feed Association—supports the enactment of Title I—H.R. 6767, the Trade Reform Act of 1973. The statement deals specifically with Titles I, IV, V, and VI.

The National Grain and Feed Association—supports the enactment of Title I—Authority for New Negotiations, particularly the authority to negotiate reduction of non-tariff barriers to trade;—deems it necessary to make cautious use of the authority under Title IV—International Trade Policy Management to protect United States interests whenever our balance of payments is in deficit or surplus; —urges the enactment of Title V—Trade Relations with Countries Not Enjoying Most-Favored-Nation Tariff Treatment; and—urges the enactment of Title VI—Generalized System of Tariffs.

The National Grain and Feed Association recommends the enactment of this legislation because of the importance of foreign trade on the well being of the agricultural sector of the economy and the importance of agricultural exports are our balance of payments situation.

Mr. FRAZIER. Thank you, Mr. Chairman. I think the best way to get it through in the fastest time is to go straight through it.

Mr. Chairman and Mr. Duncan, I am John H. Frazier, Jr., president of the National Grain and Feed Association and partner of Hennessy and Associates, Chicago, Ill. With me is Mr. Samuel H. Sabin, chairman of the National Association's International Trade Committee and vice president of the Continental Grain Co., Washington, D.C.

This statement is presented on behalf of the National Grain and Feed Association.

The National Association has over 1,000 members representing every aspect of the grain and grain processing industry from the smallest country elevator to the largest grain and feed complex, including processors and exporters.

At the outset we would like to express our support of the general provisions of H.R. 6767, the Trade Reform Act of 1973. We will, however, concentrate our remarks on title I—Authority for New Negotiations; title IV—International Trade Policy Management; title V—Trade Relations With Countries Not Enjoying Most Favored Nation Treatment; and title VI—Generalized System of Preferences.

Before getting into the specifics, we would like to share with you our observations on the importance of U.S. agriculture in world commerce, particularly grains and oilseeds.

IMPORTANCE OF U.S. AGRICULTURE IN WORLD COMMERCE

In fiscal year 1973, it is estimated that U.S. agricultural exports will exceed agricultural imports by over $4 billion. This significant accomplishment has been made possible by the availability of grains and oilseeds in this country in excess of domestic requirements. The remarkable export volume of U.S. agricultural commodities is being influenced by a major reduction of world food production in calendar year 1972. The very large reduction in cereal production last year in the Soviet Union, the People's Republic of China, Australia, South Africa, and Argentina, together with the almost complete absence of fishing in Peru for ten months, and a major reduction in world peanut production, have been major factors in bringing about the unprecedented export of agricultural commodities by the United States.

While recognizing the present boom in exports has been greatly influenced by unfavorable conditions noted above, recognition must also be given to the changing dietary habits in the world's population. Of major importance are the decisions by political leaders in several countries to attempt to maintain caloric intake per person despite adversities or to improve the diets of their citizens. These will continue to be viable forces influencing commerce in agricultural commodities.

The United States is supplying more than one-half of the feed grains and about 90 percent of the soybeans moving in world commerce. Furthermore, there has been an increase in demand for soybeans and feed grains year after year which reflects real market growth for these commodities.

The record volume of agricultural exports has resulted in record farm income and we have had in past recent years unused productive capacity. The agricultural sector of our economy is one area in which the United States continues to have a comparative production advantage over most other nations. It is one major sector that can be expected to earn more foreign exchange.

Because of the potential productive capacity and because of the opportunities to expand trade in agricultural commodities produced in the United States, it is important to achieve improved commercial relations with other nations of the world on a global basis.

Before leaving the description of the world's agricultural situation, it would be well to recognize that over the long run the world food supply situation is likely to improve. The United States is increasing acreage planted to grains and soybeans, and other major food grain producers such as the Soviet Union, the People's Republic of China, and Australia are experiencing more normal weather and thus increased domestic production. We also will see an increase in world demand of food due to both increasing population and a rising level of consumer real income and food consumption.

We are especially optimistic that the higher real income will cause some governments to place more emphasis on upgrading diets with more meat and livestock products. This portends a long-run growth in demand for U.S. grains, especially feedstuffs.

I would like to say that one of the important things we must have is a switch from the variable levy system in the European Community to one of a fixed tariff. We think that we can live with a fixed tariff.

We think also that the President must be given power to negotiate. We think that this will aid us in our negotiations. I would say this is our No. 1 aim.

And I think you have given me two minutes more. I would like to ask Mr. Sabin, in your two minutes, what would you like to say?

Mr. SABIN. I think you have given the gist of our interest in this bill, which is particularly the title I authority; and second, I think, the Most Favored Nation authority for the Communist nations. Those are the two main elements, although there are other items of interest in the bill.

[Mr. Frazier's prepared statement follows:]

STATEMENT OF JOHN H. FRAZIER, JR., NATIONAL GRAIN AND FEED ASSOCIATION

Mr. Chairman and Members of the Committee: I am John H. Frazier, Jr., President of the National Grain and Feed Association and Partner of Hennessy and Associates, Chicago, Illinois. With me is Mr. Samuel H. Sabin, Chairman of the National Association's International Trade Committee and Vice President, Continental Grain Company, Washington, DC. This statement is presented on behalf of the National Grain and Feed Association.

The National Association has over 1,000 members representing every aspect of the grain and grain processing industry from the smallest country elevator to the largest grain and feed complex, including processors and exporters.

At the outset we would like to express our support of the general provisions of H.R. 6767, the Trade Reform Act of 1973. We will, however, concentrate our remarks on Title I—Authority for New Negotiations; Title IV—International Trade Policy Management; Title V—Trade Relations with Countries Not Enjoying Most Favored Nation Treatment; and Title VI—Generalized System of Preferences. Before getting into the specifics, we would like to share with you our observations on the importance of U.S. agriculture in world commerce, particularly grains and oilseeds.

IMPORTANCE OF U.S. AGRICULTURE IN WORLD COMMERCE

In fiscal year 1973, it is estimated that U.S. agricultural exports will exceed agricultural imports by over $4 billion. This significant accomplishment has been made possible by the availability of grains and oilseeds in this country in excess of domestic requirements. The remarkable export volume of U.S. agricultural commodities is being influenced by a major reduction of world food production in calendar year 1972. The very large reduction in cereal production last year in the Soviet Union, the People's Republic of China, Australia, South Africa, and Argentina, together with the almost complete absence of fishing in Peru for ten months, and a major reduction in world peanut production, have been major factors in bringing about the unprecedented export of agricultural commodities by the United States.

While recognizing the present boom in exports has been greatly influenced by unfavorable conditions noted above, recognition must also be given to the changing dietary habits in the world's population. Of major importance are the decisions by political leaders in several countries to attempt to maintain caloric intake per person despite adversities or to improve the diets of their citizens. These will continue to be viable forces influencing commerce in agricultural commodities.

The United States is supplying more than one half of the feed grains and about 90 percent of the soybeans moving in world commerce. Furthermore, there has been an increase in demand for soybeans and feed grains year after year which reflects real market growth for these commodities.

The record volume of agricultural exports has resulted in record farm income and we have had in past recent years unused productive capacity. The agricultural sector of our economy is one area in which the United States continues to have a comparative production advantage over most other nations. It is one major sector that can be expected to earn more foreign exchange.

Because of the potential productive capacity and because of the opportunities to expand trade in agricultural commodities produced in the United States, it is important to achieve improved commercial relations with other nations of the world on a global basis.

Before leaving the description of the world's agricultural situation, it would be well to recognize that over the long run the world food supply situation is likely to improve. The U.S. is increasing acreage planted to grains and soybeans and other major food grain producers such as the Soviet Union, People's Republic of China and Australia are experiencing more normal weather and, thus, increased domestic production. We also will see an increase in world demand of food due to both increasing population and a rising level of consumer real income and food consumption. We are especially optimistic that the higher real income will cause some governments to place more emphasis on upgrading diets with more meat and livestock products. This portends a long run growth in demand for U.S. grains, especially feedstuffs.

World and U.S. trade policies cannot be separated or isolated from our domestic agricultural policies and programs. Trade policy is a vital part of our policy affecting and influencing total agricultural production in the United States. If the trade posture of this country can be structured to make it possible for the United States to become a greater factor in world commerce of agricultural commodities, our entire agricultural sector, including producers and all related businesses, will benefit.

TITLE I—AUTHORITY FOR NEW NEGOTIATIONS

Comments on Title I will generally be confined to Section 103, Trade Reform Act of 1973—Non-Tariff Barriers to Trade.

This section provides for the negotiation of what is perhaps the most stubborn and difficult impediment facing the U.S. agricultural sector through negotiations, to improve the economic climate for increased trade between the European Economic Community and the United States, with specific reference to those commodities subject to the European Community (EC) Variable Levy System. The sales of agricultural commodities to the EC subject to the Variable Levy Systems have increased very little on a trend basis in the past ten years. On the other hand, the export of U.S. agricultural commodities to the EC not subject to the Variable Levy System has increased far in excess of 100 percent during the same period of time.

It is well understood that the Variable Levy System maintains the internal high cereal price system within the EC. The problem is difficult because the Variable Levy System has contributed to a more than normal increase in land values in the six and now the nine countries of the European Community. The higher land values, over time, have contributed abnormally to the cost of production. The high guaranteed prices have been a further incentive to increase cereal production in the six countries of the EC and, if continued, will act as a still further incentive to increase production in the three new members of the EC, particularly the United Kingdom.

What has been even more harmful to normal grain use expansion has been the manner in which high fixed prices have discouraged increased grain utilization in the EC. Livestock production has not kept pace with consumer demands, particularly for beef. While these facts are readily recognized by most agricultural experts here and in Europe, the policy is very difficult to change. One approach would be to recommend to our negotiators and in turn to the European Community that the Variable Levy System be supplanted by fixed tariffs. The resistance, because of political and social problems in moving away from the Variable Levy System to a fixed tariff structure, makes this goal very difficult to attain. While this situation poses a tough problem to negotiators with a mandate to lower barriers, it must be recognized that it is a key problem that must receive attention when and if trade negotiations get underway later this year.

It should also be noted that European consumers, over a period of time, will continue to apply pressure on their agricultural leaders to develop a policy that will better service the changing food requirements of Europeans.

It should also be recognized that the level of income that any nation or group of nations wishes to achieve or maintain for their agricultural producers is a matter that must be left to the governing body of each nation or group of nations. Having said this, it must also be recognized that internal agricultural policies in the European Community, Japan, the United States, and elsewhere cannot be isolated from policies affecting the flow of all goods and services involved in foreign trade, including agricultural commodities.

A starting point in negotiations with the European Community is the development of an understanding to minimize and, finally over a period of time, to do away with export subsidies and/or restitutions that through the years have been extremely disruptive to normal market forces.

In an improved trading world it must be recognized that tariff barriers or non-tariff barriers, of which the Variable Levy System is one, must be minimized so as to provide a reward for efficiency of production. Final results that do not meet this goal fall short of trade reform.

It is hard to visualize progress being made in agricultural negotiations without the European Community adopting a fixed tariff schedule for those items now subject to the Variable Levy System and eventually reaching a readiness to lower tariffs over a period of time.

It should be recognized that the United States is not free of guilt in the application of export subsidies and in the application of import quotas. Certainly, if negotiations are seriously aimed at making efficiently produced commodities available to an expanding number of people in the world, these restrictive practices on the part of the United States must also be negotiable and handled in a manner that least upset the specific commodity areas affected.

TITLE IV—INTERNATIONAL TRADE POLICY MANAGEMENT

This title is deemed necessary to protect the interests of the United States whenever our balance of payments is in serious deficit or surplus. Unilateral action is proposed to impose surcharges or quantity limitations on imports or to temporarily increase imports and reduce tariff duties.

The authority would be very useful to the Treasury in situations not covered by other Titles of the Act. This authority should be used cautiously as it could result in retaliation against our agricultural exports.

TITLE V—TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST FAVORED NATION TREATMENT

This provision, if enacted, would enable the President to extend Most Favored Nation (MFN) treatment where he considers it to be in the National interest. He also would have the power, as presently proposed, to suspend or withdraw this treatment, to prevent market disruption. The extension of MFN, as presently written in the proposal, could be vetoed by a majority vote of either the House or the Senate within a three-month period.

While it is very difficult to estimate the trade volume, particularly agricultural trade, that may take place between the United States, the Soviet Union, Central European countries, and the People's Republic of China, recent history indicates that U.S. agriculture may actually become more deeply involved in trade with these countries than other sectors of our economy. There is a need to more fully normalize trade relations between the United States and these countries.

As the members of this Committee are fully aware, the degree of economic normalization that has taken place between the Central European countries over the past thirteen years has varied a great deal. For example: Yugoslavia and Poland do enjoy MFN with the United States. During calendar year 1972, which marked the beginning of more normal trade relations with the People's Republic of China and the Soviet Union, it has become quite evident that our agricultural sector may continue to supply a substantial volume of feed grains, oilseeds, wheat and other agricultural commodities to the countries mentioned. It has also become quite evident that the policy makers in several of these countries continue to channel resources into expanding the production of meat, poultry, eggs, and dairy products. This development results in increased utilization of feed grains and other feedstuffs—the commodities in which the United States continues to enjoy some comparative production advantage to many major producing countries and other nations.

Over a longer period of time the volume of trade between these heretofore economically restricted countries and the United States must of necessity be dependent upon the United States granting MFN treatment to them. Consistent with the desire of the grain industry to maximize exports of grain, feedstuffs, and oilseeds from the United States, we urge this title be enacted.

TITLE VI—GENERALIZED SYSTEM OF PREFERENCES

This title in the proposed Trade Reform Act of 1973, which would provide authority to the President to participate with other developed countries in granting generalized tariff preferences on imports of selected products from less developed countries has long been debated by the industrially developed countries.

This proposed title, properly administered by the United States and other developed countries, could and should work for the general welfare of the world, provided that proper safeguards and specific limitations become a part of the general understanding between the developed and less developed countries. The goal in granting generalized preferences to the Less Developed Countries should be to assist them to graduate to the MFN category and we urge that this title be enacted.

CONCLUSION

The National Grain and Feed Association recognizing the importance of foreign trade on the well being of the agricultural sector of the economy and the importance of agricultural exports on our balance of payments situation recommends the enactment of H.R. 6767, the Trade Reform Act of 1973.

Mr. GIBBONS. Mr. Duncan?

Mr. DUNCAN. No questions, Mr. Chairman.

Mr. GIBBONS. Let me say to the witnesses I appreciate your coming here and helping us with this matter.

It is pretty hard for us sitting here in America to impose on the Europeans a tariff in place of their variable levy, knowing how they value that variable levy, although I realize they have political difficulties with it, too. They have high food prices over there and they are beginning to run into some resistance from their own consumers.

I realize they are split just like this country is split between producers of agricultural products and consumers of agricultural products.

This is the first time I have heard any witness say that they would like to see the Europeans have a fixed tariff. Have you come to any conclusions about how high a tariff wall over there you could stand?

Mr. SABIN. I think we are not prepared to set a tariff system for them. We assume that in any negotiation where this change is made, that the tariff would be quite high, but I would hesitate to give you a figure, sir.

Mr. FRAZIER. I think I would like to say that almost any fixed tariff would be better than the one we have now, because our wheat or our corn could drop to 10 cents a bushel and we still could not get into the Common Market because they would just raise the levy up to their very high fixed prices.

So I don't know what the tariff would be either, but it certainly is not going to be as high as the levy is fixed now when our prices drop.

Mr. GIBBONS. How about the problem of their dumping their surpluses when they have them? What can we do about that?

Mr. FRAZIER. I admit that this is something that the French bring up when you talk to them. They will say, "We are not allowed to ship our wheat over to you." This is a very good point. We think that at all times there will be better markets for their grains than in the United States. I couldn't say that there wouldn't be times when grain from the Common Market could come here, but I don't think it would be very often.

Mr. SABIN. We think they would have great capacity to utilize more of their grains if they would shift more to a livestock economy particularly to take care of the consumer needs of their population, whose consumption of proteins or meats is far under our consumption.

Mr. GIBBONS. Are they feeding any beef over there as we feed it?

Mr. SABIN. They have some experimental feed lots. In Italy in the Po Valley they have been gradually increasing their feeding of beef cattle. There is some start on beef lots in Belgium and Luxembourg.

There are some gradual developments, although not on a very big scale.

Mr. GIBBONS. I was over there the other day. I think they are farming just about every half-acre that is relatively flat.

Mr. SABIN. It is very intensive.

Mr. GIBBONS. It is really intensive. It is amazing. It makes beautiful countryside. Economically I know it makes a lot of trouble.

Thank you, gentlemen, for your help to the committee.

Mr. FRAZIER. Thank you, sir.

Mr. GIBBONS. Mr. Joseph Halow.

STATEMENT OF JOSEPH HALOW, EXECUTIVE VICE PRESIDENT, GREAT PLAINS WHEAT, INC.

Mr. HALOW. Thank you, Mr. Chairman.

My name is Joseph Halow; I am executive vice president of Great Plains Wheat, Inc. Great Plains Wheat is a nonprofit market development organization which represents the wheat producers in the major wheat producing States in the United States Midwest, including Colorado, Kansas, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, and Texas.

I have a brief summary here of my statement which I would like to read to you if I may.

Since exports must account for from one-half to two-thirds of total U.S. wheat disappearance, wheat producers have a real interest in attempting to expand their markets for U.S. wheats. This is particularly true at the present time since the United States is moving more and more to a market-oriented agriculture whereby farmers may produce for the market. The foreign markets are part of the U.S. farmer's total market.

I might add that to expand the export market for the U.S. farmer provides him with an opportunity to increase his acreage. When he increases his acreage, he is able to reduce his fixed cost; he is able to improve his income although still producing at a decent cost in the market.

This appears to be a particularly good time to attempt to negotiate better access to world markets. In view of the strong world demand for grains, the United States' trading partners should be more willing to liberalize world grain trade. Consumer pressures in most parts of the world should help influence governments to drop restrictions on agricultural trade.

Agricultural trade is a very important part of total U.S. world trade, contributing positively to attempts to improve the United States balance of payments. The U.S. farmer enjoys a comparative advantage in agriculture, which should open up markets for him. Much of this competitive advantage is, however, being offset by protectionist devices such as tariffs, quotas, and subsidies. The United States also employs some of these devices but cannot work toward reducing or abolishing them unless other countries are prepared to do the same.

The European Community's Common Agricultural Policy with its variable levy completely thwarts any possibility of free market play in grain trade. The levy is highly protectionist, and U. S. wheat farmers would like to see it removed, or at least be replaced by a fixed tariff so that exporters and importers could receive the benefits of trading when market prices are favorable.

Trade with the People's Republic of China, the Soviet Union, and Eastern Europe are of vital importance to the U. S. grain producers. These countries cannot be expected to favor the United States with their business under a normal supply-demand situation if our markets are closed to them. We feel the United States should be prepared to give them the same tariff treatment we give our other customers.

We hope the Administration will be able to enter into large-scale negotiations with a strong position, and authority should be broad enough to provide them negotiating leverage.

Mr. Gibbons. Mr. Halow, the entire statement will appear in the record.

[The prepared statement of Mr. Halow follows:]

Statement of Joseph Halow, Executive Vice President, Great Plains Wheat, Inc.

Great Plains Wheat is a non-profit organization representing the wheat producers in the major wheat producing states in the United States Midwest and, through a special contract with a wheat pool in Ohio, wheat producers in the Corn Belt as well. Great Plains Wheat was founded approximately 14 years ago by the wheat producers to help expand overseas markets for U.S. wheats. We administer active export programs in Europe, Africa the Middle East and Latin America. Through a contract with Western Wheat Associates, Great Plains Wheat is also the largest single contributor to and participant in market development activities in the Far East, making its interests global.

The sole function of Great Plains Wheat is to help expand exports of U.S. wheats, based on the solid realization that exports have had to account for approximately half of total U.S. wheat disappearance. The export markets are, therefore, vital to the U.S. wheat producers, since the amount of land which the U.S. wheat farmer can put into production—and, in a like manner, his income also—rises and falls with the increase or decrease of exports. The health of the wheat industry depends on strongly expanding exports. Export growth is, in fact, important to all of agriculture and related industries.

IMPORTANCE OF AGRICULTURAL EXPORTS TO U.S. TRADE BALANCE

Agricultural exports have been a very important part of total U.S. trade and have been making a positive contribution to our balance of payments since 1960. The importance of agricultural exports to the U.S. economy is illustrated by the fact that in the 1972/73 marketing year, despite a deficit in our overall position, agriculture will have contributed a surplus of over $5.0 billion, so that our balance of trade might have been much worse without agricultural exports. This is expected to improve, but a continued improvement in the level of agricultural exports will depend on greater access to the world markets.

Assurance of continued access to the world markets has taken on even greater importance to U.S. agriculture as it moves more to a market-oriented system. Considering the extent to which agriculture is dependent on exports, the U.S. farmer must consider the world market as an integral part of his total market. U.S. agriculture's dependence on the foreign markets is now more pronounced than ever, and, under normal circumstances, the comparative advantage which the U.S. farmer enjoys gives him a strong competitive edge over less efficient producers.

The United States payments deficits of the last two years have to weakened the U.S. dollar as to cause it to be devalued twice within the past 18 months.

The parity relationships of the dollar and other world currencies are now considered to be favorable, and the devaluation will be of great help to many sectors of the economy. This will not be true for wheat because of the extent to which trade in wheat is restricted by many of the major importers through various means which include quotas, tariff and non-tariff barriers. The effect of the devaluation is lost, for example, on the European Community, which merely raised its levy to offset the amount of the dollar devaluation.

IMPROVED ACCESS FOR U.S. GRAINS TO EUROPEAN COMMUNITY

Having mentioned the European Community I would express the hope that in any future negotiations the United States would obtain better access for grains into the Community. Since the Community is one of the world's richest areas it will be a major party in the negotiations. Negotiations on agriculture with the Community will be extremely important because they will affect the trend of the entire negotiations. The European Community has actually been one of the most frustrating markets, whose influence in world grain trade has been greater than its grain production should have warranted. The Community's Common Agricultural Policy, with its system of high price supports, has stimulated uneconomic grain production within the Community. According to USDA figures, despite the growth in the market, the Community's grain imports have remained approximately the same for the past 10 years. Their exports, on the other hand, have increased and are now at about the same level as grain imports into the Community.

Surpluses created by the high price incentives in the Community—without any production restraints—have been exported under the benefit of unrealistically high export restitutions (subsidies), which have in instances been approximately as great as or even greater than the f.o.b. sales price. The EEC's policy has, therefore, cut not only into U.S. markets for grain within the Community but also into other markets, principally in the Mediterranean area and Eastern Europe where the United States was unable to compete against the unrealistically subsidized prices.

EEC ENLARGEMENT

The enlargement of the Community to include the United Kingdom, Ireland and Denmark will mean that this agricultural policy will be extended to these countries as well, increasing the size of the area which maintains this artificially structured agricultural system. The increased production response in the new member countries could be expected to produce surpluses over and above the requirements of even the enlarged Community for export to third countries, since there are no provisions in the Common Agricultural Policy for restricting production. The Community guarantees purchases of grains at intervention prices which are substantially higher than world prices.

VARIABLE LEVY THWARTS FREE MARKET PLAY

The Community's variable levy, which offsets the rise and fall in world prices, effectively thwarts any attempt at free market play in grain trade with the Community. As compared to variable levies, import duties can be raised or lowered in bilateral or multilateral negotiations. They provide the domestic producers with a degree of protection but still permit exporters to benefit from efficiency and cost reduction. The variable levies, imposed unilaterally by the importing entity, completely insulate the domestic market from world prices. We would hope that the Community can be encouraged to give up its variable levy and, if it must maintain some protection for its farmers, that it adopt instead a fixed import duty, which will permit increase access to the Community for the world's more efficient producers.

Under the current system the Community's threshold price against which we have to compete is at too high a level. Maintaining the threshold price at such a level and protecting the internal market by use of the variable levy means that the farmers in more efficient grain producing countries such as the United States, Canada and Australia are paying the cost for the Community's overproduction. The Community's current policy with regard to grains has a major adverse effect on total world grain trade and on attempts to maintain an equilibrium in levels of supply and prices. Community enlargement under current policies will contract grain markets for the world's more efficient grain producers. It will suppress production plans in areas where grains can best be grown to supply the world's needs, removing the hopes of producers in these countries to obtain proper remuneration. The Community should be aware of its obligation to its own consumers as well as consumers in the rest of the world. If the Community were, for example, to adopt a more realistic policy on its grains in a market-oriented agricultural system, it could use more grains for livestock production, to provide its people with the type of diet which they are demanding. Beef production, for example, is actually discouraged by the Community's agricultural policy, because the Community pricing systems do not encourage the necessary increase in use of grains for livestock feed. Imported beef is becoming more difficult of obtain, and EEC consumer complaints can be expected to increase as demand continues to outstrip supply.

CONSUMER PRESSURE IN EEC

The Common Agricultural Policy is, therefore, obviously not working in the interests of the consumers who support it. There is, in fact, evidence that Community officials are beginning to recognize this and that the Community would soon tend to move away from its policy of using high support levels to achieve farmer income and consider instead adoption of price levels which would not encourage surplus production but which would encourage the use of grains to expand livestock production. This would not mean a restriction but a restructuring of Community agriculture, support for which is being found among an increasing number of officials in the Community.

WORLD FOOD CONSUMPTION INCREASING

The events of the past nine months have proved that world consumption of agricultural products is increasing, and people are demanding diets which include more animal proteins. Freer trade in agricultural products is, therefore, not merely in the interests of the U.S. farmer and the U.S. economy. The concern of governments in other countries over consumer pressure and their response to it has affected the world commodity markets as though a huge new bloc of consumers had been added to the world's population. The fact that governments are attempting to satisfy consumer wants means that there will be new pressures on world agriculture, which only a globally efficient agriculture will be able to withstand. Areas which have, through trade restrictions, continued to support inefficient and artificially structured agricultural systems will find that they may, because of pressure from their own consumers as well as consumer demands from other areas, be forced to consider changes.

CONSUMER PRESSURE IN USSR AND CHINA

Consumer pressure is apparently also being felt in countries such as the Soviet Union and the People's Republic of China, where governments have shown themselves to be willing to expand large amounts of foreign exchange to continue to supply more of the types of food their people want. They indicate furthermore, that they expect to continue to do so.

TIMES FAVORABLE FOR TRADE NEGOTIATIONS

The times are, therefore, more favorable for large-scale multilateral trade negotiations. Another factor which increases chances for a successful conclusion of negotiations on agriculture is that, like the United States, other countries are also being subjected to consumer pressure on the cost of food prices. The inflationary spiral and escalating food costs in the United States, considered unbearable here, are relatively modest compared to the rate of inflation in food prices in many other countries. Recent reports indicate food prices, already high in all the six original European Community countries have, for example, risen by more than 6 percent. In the new member countries, particularly the United Kingdom, the price rises are even greater. In comparison, in the United States in all of 1972 food prices rose by 4.7 percent.

UNITED STATES-JAPAN TRADE

Inflation is also a concern in Japan, where food prices are already high. Japan continues to buy a large portion of its agricultural requirements from the United States in order to help offset a huge annual trade surplus with the U.S., and we now enjoy a healthy volume in grain sales to Japan. The Japanese still maintain restrictions on imports of certain agricultural products, in addition to restrictions on many industrial products. They should find it very much in their own interests to remove or reduce many of these restrictions in order to better satisfy their consumers, and at the same time bring their trade with the United States into better balance. Japanese transportation facilities and industry are being disrupted by striking workers, demanding wage increases to offset the inflation in the cost of living.

U.S. TRADE RESTRICTIONS

The point is made that the United States also has various import restrictions, such as tariffs and quotas on certain products, and this is a valid point. The United States would, however, move toward eliminating these restrictions but cannot afford to unless the U.S.'s trading partners do the same. We feel that quotas tend to restrict the amount of free trade allowed, and we are prepared to proceed to go on a reciprocal basis but have to be convinced that others will do so also.

At the present time the United States is exporting without subsidies, and under current conditions will probably continue without subsidies for at least some time. Export subsidies are actually an anachronism and should be ruled out under freer trading conditions in a world where demand for agricultural products is continuing to grow. Export subsidies distort what can be efficient agriculture because they do not permit comparative advantage to come through and make itself felt. We have, nevertheless, because of our concern over what other countries might do, asked the Department of Agriculture to maintain stand-by authority for export subsidies if and when again needed. We would rather be able to continue to export without them if other countries do the same and if restrictions are not raised against our agricultural exports.

NEED FOR BROAD NEGOTIATING POSITION

The possibility of the U.S.'s instituting or re-instituting certain protectionist measures is, in any event, also a very good point for negotiation. If the U.S. representatives go to negotiating sessions with power only to reduce tariffs their negotiating position is obviously weak. The Administration's Trade Bill requests authority both to remove tariffs and institute restrictions where needed. This appears to be a great deal of authority, but during a crucial series of negotiations it would be unfortunate if the U.S. negotiators were hobbled by a position in which they had very limited leverage.

TARIFF TREATMENT FOR PRC, USSR AND EASTERN EUROPE

The U.S. farmers have been strong supporters of free trade and have continued to make strong representations against the rising tide of protectionist sentiment in the United States the last several years. We are not now digressing from this policy but merely suggesting a means of helping, through negotiation, to attain a greater degree of freedom in world trade. Granting the Administration authority to protect sectors of the U.S. economy threatened by an unfair flood of imports might, furthermore, help satisfy those interests which keep pressing for protectionist legislation, whether or not that authority need ever be used.

Trade with the People's Republic of China, the Soviet Union and the Eastern European countries presents the most exciting new development in trade in many years. Prospects for continued agricultural trade with these countries appear to be excellent. These countries now seem dedicated to providing better diets for their people, and their production capacities appear to be limited by lack of available acreage and other inputs, agricultural policy or weather. The strength in our own agricultural economy will to a great extent depend on the continuation of the trade to these new destinations. There are still some problems here in the United States incidental to grain sales of such magnitude, but I am firmly convinced that with the incentives provided by a free enterprise system these problems will be overcome, and we shall arrive at a new equilibrium, anxious to continue this business.

In order for these countries to continue to purchase from us, however, they must have the necessary foreign exchange. It is unrealistic to think that we can continue to sell them grain and other products if we do not provide them access to our own markets. We cannot expect them to show preference to the United States in determining their future grain imports if we do not grant them the same customs treatment accorded our other trading partners. The authority for granting such tariff treatment is included in the Administration's Trade Bill, subject to Congressional veto within 90 days. Considering concern in some areas regarding the propriety of such customs treatment, the qualification on this authority appears to be reasonable and the time limit appears not to be excessive. The 90 days would provide a minimum period of time during which it could be determined whether or not this customs treatment might be in U.S. interests.

The world has become too small and nations too closely involved with each other for any nation to disengage itself from the others. Engagement means trade, and the United States cannot afford to sit back and hope its fair share of world trade will find its way here on its own. We must be prepared to go out and get it, as have the nations which currently enjoy the most favorable balance of trade.

U.S. wheat producers are anxious to receive the share of world trade which their farming efficiency should assure for them under fair trading conditions.

We welcome this opportunity to present our views and thank you for your attention.

Mr. GIBBONS. Mr. Duncan, do you have any questions?

Mr. DUNCAN. I have no questions.

Thank you very much for your indulging us and staying with us.

Mr. GIBBONS. Yes, sir, we appreciate it. I will say, the last is not the least and we are interested in what you have to say. Let me ask you a couple of questions.

I think I noted in the discussions we had today that there was the same kind of difference that I have noted in other discussions: On the one hand, we have some people who are in the agricultural industry, and I am talking about the Farmers Union here, that seem to be interested in what I would call a sort of international cartel in which they would be guaranteed a pretty good price and the world prices would be pretty much guaranteed and production would be controlled and there would be the setting up of reserves and things of that sort.

Does your position differ from that?

Mr. HALOW. I don't know exactly what their position is on that particular score. We have a position. In fact, we came out in favor of an international grains agreement that we have supported as well as an international wheat council which helps regulate world trade through better understanding.

We had a fairly bitter or bad experience, with the international grains agreement several years ago, and if the United States were to attempt to negotiate another one—I think we talk about negotiating another one in another year—I would hope it would be one which would not again prejudice U.S. wheat interests.

Mr. GIBBONS. I am not really familiar with what happened.

Mr. HALOW. Our wheat was used as a basing point f.o.b. gulf, which gave us no leverage. Our prices were completely exposed at the gulf. In 1968 and 1969 there were large surpluses created because of the price level provided under the agreement, and we had absolutely no flexibility to expand our sales.

We were at a disadvantage because our prices were fixed at the gulf, whereas other nations were all able to use, for example, freight advantages which we did not have in calculating their prices. All prices related to ours. There were various other means used by other countries in order to make their prices competitive. We did not have such means.

Mr. GIBBONS. I realize that all you gentlemen work in a very complex field. We are going to need all of your advice and guidance to ever solve this problem. I regret that the hour is so late, the time is so short, that we cannot fully explore this. But on behalf of the committee, let me thank you again, and thank all of those who are in attendance.

The meeting is now adjourned. It will convene tomorrow morning at 10 o'clock.

Mr. HALOW. Thank you, sir.

[The following was submitted for the record:]

STATEMENT OF JOHN W. SCOTT, MASTER OF THE NATIONAL GRANGE

Mr. Chairman and members of the committee, the National Grange is in full support of the Trade Reform Act of 1973 and is strongly opposed to the provisions of the Burke-Hartke bill.

Our nation's economy cannot afford the protectionist policy of Burke-Hartke. While it may reduce imports in the short run, it surely will also reduce exports, netting our economy nothing. It would be even more disastrous over the long run, resulting in increased consumer prices, followed by inflation and recession. We cannot allow our economy to be hitched to a team and wagon of the thirties.

U.S. agriculture must be considered in a global context; therefore a part of a global economy. U.S. farmers cannot continue to be a vital part of the U.S. economy if it is to be limited to the domestic market.

We must export and to export we must import on a selected commodity and product basis. It is not the National Grange's position to see any domestic industry or part of an industry harmed or drastically reduced because of imports. We believe there are solutions to international trade problems and many of the solutions are encompassed in the Trade Reform Act of 1973. In order to reduce both tariff and nontariff barriers to world trade, the Administration needs the flexibility contained in the Act.

U.S. agriculture cannot afford to be just a residual supplier of agricultural commodities to the world markets. If we are to hold down domestic farm program costs and maintain farm income near present levels, we must gain a negotiated access to foreign markets. Exports and their effect on domestic prices are the keys to the new farm legislation.

The Grange's position can be best summarized by referring to two policy statements adopted by the delegate body at our 106th Annual Session held in Hartford, Connecticut, in November, 1972:

"AGRICULTURAL IMPORTS"

"We recognize that equitable trade policies between nations in international trade are complex with every nation having an obligation to protect and promote the interests of its own citizens both by expanding markets for its own production and making available the products of other nations whenever and wherever this can be accomplished without destroying the domestic price structure of its own producers and industries. We must continue to study the balance of agricultural imports against agricultural exports and recommend such limits as may be necessary to sustain full parity of income for the producers of these agricultural commodities.

"Foreign markets play an important role in our agricultural economy and agricultural exports have made substantial contributions to our international balance of payments.

"We realize that it would be unrealistic to attempt by quotas or inspections regulations to reserve the total domestic agriculture market to our own producers and that such action would be detrimental to our interests in world trade. We do strongly insist that quotas or other trade regulatory measures be at such level as to reserve to domestic producers such portion of the market for any agricultural commodity as they are able to supply at a fair and reasonable price level.

"We do not approve the use of inspection procedures to impose limits on agricultural imports. We do, however, insist that all agricultural and food imports meet the same domestic inspection and marketing standards."

"AGRICULTURAL EXPORTS"

"Whereas, the export market represents an important part of the total market for U.S. farm products, and

"Whereas, foreign trade restrictions, export subsidies and other practices which distort production and trade are major impediments to the continuation and world expansion of trade in agricultural products, and

"Whereas, the maintenance of open trade channels and the expansion of exports are vital to the health of American agriculture, and

"Whereas, the outlook for international trade in agriculture is clouded by emerging developments in the world trading system, especially the enlargement of the European Community, and its proliferating preferential trade agreements with other countries in Europe, the Mediterranean, Asia, Africa, and certain other parts of the world, there is urgent need for new policies and actions by the U.S. government and by other governments to bring about more open and orderly conditions of world trade. Settlement of the international monetary crisis of 1971 involved joint commitments by the major trading nations to embark on negotiations to improve the international economic system. While the way is now open for trade negotiations, the danger is that even negotiations may not take place or fail without resolute action by the United States. While U.S. agricultural exports are now at world price levels, the temporarily favorable conditions of trade are likely to be turned around once again by the agricultural trade restrictions, subsidies and other forms of distortion so widespread in foreign countries, unless a major negotiating effort is made to reduce these trade-disrupting forces. It is imperative that agriculture be given highest priority in negotiations, lest these problems critical to the American farmer be once more left aside.

"In the short run, the entry of Great Britain, one of the largest agricultural markets, as well as Ireland and Denmark, into the European Community threats to damage and even end American access to those markets. Only the most strenuous effort by the U.S. government to negotiate under GATT Article XXIV our traditional access 'rights' can offer hope for improvement of this adverse situation.

"We recognize the right of all governments to provide farm programs which adequately deal with the special problems of farmers in every country, but we believe that policies which result in passing costs of adjustment to other countries, and especially to farmers in other countries, cannot be condoned. In particular, the European Communities Common Agricultural Policies (CAP) should be reformed so that the disruptive effects on the trade of the U.S. and other exporting countries can be drastically reduced over time. Unless changes are made in the CAP, the enlargement of the European Community will tend to disrupt further American trade.

"Alongside these developments is the tendency in the U.S. for both industrial and agricultural trade interests to become fractionated, and for particular groups to seek relief for their import difficulties at the expense of other industries or farm sectors, especially through sweeping new legislative trade barriers which encourage retaliation and trade war. In light of these developments:

"Be it *Resolved*, That the National Grange continues to favor a gradual freeing of trade between nations on a mutually beneficial basis consistent with the principles set forth in the General Agreement on Tariffs and Trade (GATT). It is recommended that policymakers place much greater emphasis on expanding farm commodity trade and on reducing disruptions and distortions to world trade resulting from unfair policies of certain countries. Consistent with this objective,

"Be it further *Resolved*, That the National Grange urges the U.S. government to make every possible effort to insure that special negotiations on enlargement of the European Community in early 1973, and the major comprehensive trade negotiations scheduled to begin later in 1973, give maximum priority to agriculture. It should be stressed that agriculture and industrial progress should go hand in hand, and that solution of agricultural trade problems must not be left behind as in past world trade negotiations.

"Be it further *Resolved*, That the U.S. Congress be strongly encouraged to provide an appropriate and forthcoming negotiating mandate to the executive branch, and that the U.S. government be strongly encouraged to seek reforms in other nations of farm trade policies which have the effect of disrupting world trade and transferring substantial parts of the costs of their national farm programs to farmers in other countries, including U.S. farmers, and that the highest priority be given to basic negotiations to open the channels of trade and to restore the principle of nondiscrimination in world trade."

We appreciate this opportunity to present the Grange views on trade reform.

We strongly urge that you report to the House a trade bill very close to the provisions outlined by the President.

Thank you.

MEAT IMPORTERS COUNCIL OF AMERICA, INC.,
New York, N.Y., June 20, 1973.

Hon. WILBUR D. MILLS,
Chairman of Ways and Means Committee,
Longworth Building, Washington, D.C.

DEAR MR. CHAIRMAN: The Meat Importers Council of America, composed of firms accounting for more than 90% of total fresh, frozen meat imports, urges Congress to remove unnecessary customs duties assessed on beef, veal, sheep meat, and lamb, entered under Item Nos. 106.10, 106.20, and 106.30, Tariff Schedules of the United States. Legislation which will eliminate these additional costs of from 2 cent to 3 cent per pound will help reduce upward pressure on wholesale and retail meat-food prices and, we believe, may attract adequate U.S. supplies of manufacturing and certain table meats. Reduction of costs of meats resulting from duty savings will not injure domestic producers and will benefit consumers.

Respectfully submitted.

JOHN E. WARD,
Chairman, MICA.

[Whereupon, at 5 p.m., the committee adjourned, to reconvene at 10 a.m., Thursday, May 24, 1973.]

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